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ABSTRACT

This document contains seven papers examining the implications of proposed major reforms to the United Kingdom's post-16 sector. "The New Learning Market--Overview" (Caroline Mager) argues for balancing market-driven and planning-driven approaches to planning post-16 education. "Education and Training as a Learning Market" (Peter Robinson) explores the possible conflicts inherent in attempting to make the post-16 training system learner driven and responsive to the needs of the following entities: individuals; businesses; communities; and national, regional, and local skills agendas. "Learning and Skills as a Mutual Enterprise" (Mick Fletcher) discusses government reform proposals in light of the concept of mutuality. "The New Learning Market: Who Pays, and for What?" (Geoff Stanton) considers the impact of the government proposals on educational finance. "Performance Indicators: 'Measure for Measure' or 'A Comedy of Errors'?" (Adrian Perry) explores the problems of ensuring that education and training are meeting public sector goals. "The Drivers for Change in Post-16 Learning" (Peter Robinson) examines the objectives underlying the government proposals. "What Do Employers Want? Do They Know? And Should We Listen?" (Andy Westwood) outlines the impact of the new emphasis on employer views on the supply and demand sides of educational policy delivery. Several papers contain substantial bibliographies. (MN)

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Contents

About the authors	vii
Seminar participants	xi
IPPR–FEDA project team	xii
1. The new learning market – overview *Caroline Mager*	1
2. Education and training as a learning market *Peter Robinson*	15
3. Learning and skills as a mutual enterprise *Mick Fletcher*	27
4. The new learning market: who pays, and for what? *Geoff Stanton*	37
5. Performance indicators: *Measure for measure* or *A comedy of errors? Adrian Perry*	57
6. The drivers for change in post-16 learning *Peter Robinson*	77
7. What do employers want? Do they know? And should we listen? *Andy Westwood*	93

About the authors

Caroline Mager

As the manager of FEDA's Policy Unit, Caroline leads on policy analysis within the agency and examines education policy within the context of wider social policy. Prior to taking on that role in March 1999, Caroline headed FEDA's Curriculum and Qualifications team and was responsible for its research and development, curriculum support programmes, publications and training.

In 1995–96 she was a member of Sir Ron Dearing's 16–19 Review Team where she had particular responsibility for work on the National Certificate and Advanced Diploma.

On joining the Further Education Unit (FEU) in 1992, Caroline's responsibilities included Open College Networks and credit framework developments. She later acquired responsibility for the organisation's research portfolio and quality system.

During the 1980s Caroline chaired the Sheffield Labour Party body responsible for developing education policy and was a co-opted member of Sheffield LEA. She was a Governor at a number of educational establishments, including primary and secondary schools as well as Sheffield City Polytechnic and Granville College of Further Education. She was chair of governors of Parkwood Tertiary College from 1988–1992.

Peter Robinson

Peter Robinson has been Senior Economist at the Institute for Public Policy Research since October 1997. He leads the IPPR team dealing with economic and business policy and the environment and transport. He is the editor of *New economy*, the IPPR's journal. He is also a Research Associate at the Centre for Economic Performance at the London School of Economics, where he was previously a full-time Research Officer.

He is currently heavily involved in the IPPR's flagship Commission on Public Private Partnerships, looking at how far the public sector might involve private sector providers in the delivery of public policy. He is leading a project on the Future of Work, which will look at the prospects for full employment and the role of the state in the labour market. He is also involved in ongoing work on the relationship between the economy and the labour market and educational attainment.

Mick Fletcher

Mick Fletcher leads FEDA's work on funding learning. He has worked closely with DfEE and the funding councils on approaches to funding FE institutions for more than 10 years, and led research projects investigating aspects of the methodology and training programmes for college managers. He is also currently researching arrangements or student financial support and individual learning accounts.

Mick joined FEDA from a local authority background, where he had responsibility for FE colleges, adult and community provision and government-funded training programmes for young people and adults.

Geoff Stanton

Geoff Stanton is a Senior Research Fellow in the School of Post Compulsory Education and Training at the University of Greenwich. He also works as a freelance consultant to colleges and national agencies, and is a part-time inspector for FEFC. For eight years he was Chief Executive of the Further Education Unit (FEU). He has held senior management posts in two colleges, and has been an FE teacher trainer. He has served on policy committees of NCVQ and the National Curriculum Council, and currently does so for OCR, City & Guilds, and the Association of Colleges.

Geoff has written extensively on Further Education matters, with a focus on qualifications policy and curriculum management. He has worked on unit and credit frameworks, and is currently involved in a number of projects concerned with individual learning accounts.

Adrian Perry

Adrian Perry has been Principal of Lambeth College since July 1992. The College deploys a budget of £24m to meet the needs of 16 000 students in a disadvantaged area of South London. He has worked in further education since 1969, and was previously Principal of Parson Cross College in Sheffield.

Adrian is a Fellow of the Royal Society of Arts, and a member of the Labour Finance and Industry Group. Since moving to Lambeth, he has become a trustee of Challenge South (working with the Prince's Trust in South London) and the Inner City Young People's Project, and represented the FE sector on the Basic Skills Agency's working group on Family Literacy. He is a director of Britain's largest TEC, Focus Central London, and sits on the boards overseeing Lambeth's Pathfinder New Deal and Education Action Zone. He was founding Chair of the South London Learning Partnership.

Adrian has been an A-level examiner, published economics textbooks, and worked in educational television. He is a qualified rugby referee and a 'Brain of London' semi-finalist.

Andy Westwood

Andy Westwood is Director of Development at the Employment Policy Institute – an independent think tank on employment issues. He works on a variety of areas, but leads on issues relating to skills, education and training and employability. Prior to joining the EPI, Andy spent several years working in education at a number of Further Education Colleges in the South-East.

He is currently working on a number of research projects including skill needs for the new economy and the future of work.

Seminar participants

Marcial Boo, Head Post-16 Funding Team, DfEE
Bob Butcher, Divisional Manager, Analytical Services, DfEE
Clive Caseley, Director, Communication, FEDA
Winston Castello, Director of Operations,
Essex Training and Enterprise Council
David Cheetham, Principal, Gateshead College
Peter Clark, Senior Policy Advisor, CBI
Bert Clough, Senior Policy Officer, TUC
Mark Corney, MC Consultancy
George Cristoff, General Manager, Hercules Consultants Ltd
John Dunford, General Secretary, SHA
Jenny Fitton, Principal, Taunton's College
Mick Fletcher, Development Advisor, Funding Learning, FEDA
Neil Fletcher, LGA
Geoff Hall, Director of Strategy and Funding, FEFC
Craig Harris, Director of Education & Employment, NACRO
Ursula Howard, Director, Research & Development, FEDA
Chris Hughes, Chief Executive, FEDA
Maria Hughes, Development Advisor, Skills, Learning & Work, FEDA
Margaret Luck, Advance Training
Deirdre MacLeod, Policy Advisor, FEFC
Caroline Mager, Manager, FEDA Policy Unit
Ian Nash, Editor, TES
Tim Oates, Research Manager, QCA
Carey Oppenheim, Research Director, IPPR
David Robertson, Liverpool John Moores University
Peter Robinson, Senior Economist, IPPR
Adrian Perry, Principal, Lambeth College
David Sherlock, Chief Inspector, TSC
Barry Smeaton, FE Advisor, DfEE
Geoff Stanton, Research Fellow, University of Greenwich
Matthew Taylor, Director, IPPR
Paul Thompson, Research Assistant, IPPR
Mike Thorne, Vice Principal, Napier University
Tony Watts, Director, NICEC
Andy Westwood, Employment Policy Institute
Alison Wolf, Institute of Education
Shirley Woolley, Director, Frederick Woolley Limited

Seminars were chaired by Chris Hughes, Chief Executive of FEDA and Matthew Taylor, Director of IPPR.

IPPR–FEDA project team

Mick Fletcher, Development Advisor, Funding Learning, FEDA
Caroline Mager, Manager, FEDA Policy Unit
Carey Oppenheim, Research Director, IPPR
Peter Robinson, Senior Economist, IPPR

11

1 The new learning market – overview

Caroline Mager
Manager, FEDA Policy Unit

Introduction

In summer 1999, shortly after the publication of the White Paper *Learning to succeed*, FEDA and IPPR agreed to carry out a programme of joint work to analyse the proposals and to consider options for the operation of the new sector. The starting point for the work undertaken was broad support for the Government's aims in introducing these major reforms to post-16 learning, and a concern to assist in shaping these to ensure success. Details of the IPPR–FEDA team and of seminar participants can be found on pp *xi–xii*.

The analysis focused particularly on the concept of the 'market' being proposed in the White Paper as central to success in meeting the following stated objectives:

- Change should promote excellence and participation
- Employers should have a substantial stake in shaping post-16 education and training
- Systems must be learner driven and responsive to the needs of individuals, businesses and their communities
- Equal access to education, training and skills opportunities should be a priority
- People should have access to support in the form of good advice and guidance and, where appropriate, financial help
- Accountability, efficiency and probity should be promoted at every level.

This paper provides an overview of the emerging issues, themes and areas of consensus emerging from three seminars held to consider the operation and organisation of the new learning market. Different positions were taken in discussion, so this paper does not necessarily represent the views of all seminar participants. This overview does

not reproduce the detailed argument and evidence presented in the accompanying papers. Its purpose is to draw from the discussion of those papers the key areas of consensus and controversy, and issues where it is felt that further thinking is required. Given that the context and proposals for the Learning and Skills Council are developing rapidly, the overview also draws on recent papers published since the seminars were held. This paper is structured around three broad themes:

- The balance between planning and the market
- Workforce development and meeting the needs of employers
- Institutional arrangements.

The final section sets out recommendations about the operation of the new learning market to be considered by those charged with the implementation of the Government's proposals.

The balance between planning and the market

Customer-driven or planning driven?

A key issue to be considered is the extent to which the arrangements should aim to empower customers to secure a responsive market, and the extent to which they should provide the Government and its agencies with mechanisms to plan provision to meet need.[1] These are two very different policy options and the White Paper and the Learning and Skills Council prospectus give conflicting signals.

The White Paper uses the language of the marketplace in its commitment to establishing a 'fair and competitive market', and emphasises the need for responsiveness and a demand-led, customer-led service. This approach suggests that customers will be empowered to demand responsive services within a competitive marketplace.

But it also appears that the Government envisages a strong planning model particularly through the operation of the 47 local Learning and Skills Councils which will have responsibility, for example, for:

- Identifying the current and future learning and skills priorities for individuals, businesses and communities
- Discussing and agreeing the plans and budgets for individual colleges and training providers
- Developing a local provider infrastructure and managing the learning market.

The Learning and Skills Council prospectus

1. This issue is addressed particularly in the two papers by Peter Robinson (chapters 2 and 6).

The Learning and Skills Council prospectus also makes it clear that mechanisms to predict and specify skills needs will be a major feature of the new arrangements at national, regional and local levels.

Therefore there is a tension in the proposals regarding the extent to which we are looking at normal market activity based on action by customers in a demand-led system, or at a planning model which analyses need and secures provision to meet it.

What has been the failure?

New proposals need to be understood in the context of the failures of the existing system, in order that we understand the problem that is being solved.

Seminar participants identified a range of areas where it was felt that the Government perceives failures. These were not shared by all participants, but included the following concerns: poor quality provision, uncertain value for money, lack of – and hostility towards – new entrants to the supply-side, lack of responsiveness, perceived failures in respect of widening participation and social inclusion, administrative complexity, inefficiency and inconsistency. On balance, however, the main criticism of the current system which runs through *Learning to succeed* is that the system has failed to supply employers and the economy with a workforce with the skills they require.[2] Proposals appear to pay most attention to this specific failure.

This failure could be a result of providers not making available the right education and training programmes, or of customers 'failing' to opt for these, or some combination of these.

Provider failure?

The extent to which providers are responsive to customers is clearly variable. Providers argue that they do respond to the needs of customers, whether employers or individuals, but they can only do so in as far as it is economic for them to do so. High costs of some types of provision and the inefficiencies of making provision for small groups of learners constrain the capacity of providers to be responsive. The negative impact of some aspects of the funding systems and of performance indicators on providers' capacity to be responsive are well rehearsed.[3] College performance in relation to local economic development is also acknowledged to be improving, but variable.

2. This point is developed in the paper by Andy Westwood (chapter 7).
3. Adrian Perry's paper (chapter 5) explores the issues around performance indicators in depth.

A particular brake on responsiveness results from constraints on what can be provided at public expense. In order to measure use of public funds, measurable outcomes such as qualifications are used as a proxy for measuring learning.[4] Therefore publicly funded provision must lead to a qualification. Providers cite this as a major constraint in that employers require specific skills and therefore their needs are frequently not met by qualifications. As one employer put it: 'SMEs don't want courses, they want expertise.' The pressure to deliver qualifications also inhibits providers' capacity to work effectively with reluctant or 'fragile' learners who may need very specific skills and confidence building and are not prepared to risk failure. In these cases providers are inhibited in their capacity to meet the needs of their customers.

It can be argued therefore that government regulation of the product being delivered in the learning market reduces the capacity of providers to meet customer needs. The Learning and Skills Council should use its new powers to fund provision other than qualifications to ensure that providers are able to meet customer needs more effectively. The capacity to fund units of qualifications for adults will assist provider responsiveness.

Customer failure?

Another possible explanation of this perceived failure is that individual customers are not demanding what employers, communities and the economy want. Therefore it is argued that individual preference does not lead to choices being made which are good for the economy. It might equally be argued that individual employers, where they are driven by short-term goals, do not always demand what is good for the economy. As a result, it is argued, greater intervention through planning is required to get a better fit between the desires of individuals and the needs of the economy. *Learning to succeed* and the Prospectus do not spell out how this will be achieved in detail, but the elements appear to be:

- Systematic analysis of the skills required through consultation with employers and strengthening their capacity to identify and articulate their needs, e.g. through NTOs. This element is given significant emphasis in *Learning to succeed* and the Prospectus
- Removal of barriers to participation, particularly by those most at risk of exclusion
- More information and advice to learners about the opportunities available, and
- Greater attention to promotion of learning to improve take-up.

4. See Geoff Stanton's paper (chapter 4) for exploration of this issue.

The weight given to these different elements will be critical to the precise arrangements. The first element could point towards a controlled market, where analysis of the skills in different sectors informs detailed planning and determines what is funded and therefore what is on offer. The latter elements point towards empowering learners and customers to make informed demands – in other words to encourage the market to operate as a market.

The IPPR–FEDA programme of work considered where the balance should rest between a planning and a customer-driven model. The key question to be addressed in reaching a view is whether evidence suggests that customers/learners make sensible choices – i.e. do they choose education and training that will lead to jobs and social inclusion; or do they make poor decisions, leading to unemployment and social exclusion.

If the evidence is that customers – learners or employers purchasing provision – make sensible decisions, then the logic is to support the operation of a market: empower the influential customer, give them good information on which to base decisions and let funding follow demand. If, on the other hand, evidence suggests learners make poor decisions, then the implication is that the Government should carry out detailed planning of the provision, and by implication, fit learners to that provision.

There was clear consensus that information is needed for learners which is accurate and comprehensive – any customer will make better decisions if they have adequate information about options. Detailed information on rates of return should be part of the information provided so that customers are better able to take informed decisions. The seminars also recognised that there is a major challenge in generating demand among learners who are not participating, both through removing financial and other barriers, and through raising motivation.

In general though, it was felt that learners do make sensible decisions in their own terms, are resistant to being directed away from their natural inclinations and do read the labour market signals effectively where these are clear. A range of examples are suggested of where learner choice is at fault: there are shortages of specific IT skills; there is lack of demand for plumbing courses; it is suggested that too many people want to do hairdressing and media studies. However, there is little evidence of unemployed hairdressers or media studies graduates – on the contrary, hairdressing is an established route to financial independence for women with family commitments, and media studies appear to provide generic skills in demand in the labour market.

Where skills shortages exist, however, they may generate wage pressure and present a barrier to the smooth running of the economy.

The seminar's view was that this should be addressed primarily through initiatives to inform learner choice, and not through offering learners prescribed or constrained choices. Overwhelmingly the seminars came to a view that the focus in implementing the Learning and Skills proposals should be on supporting the learner to be an informed and influential customer and on ensuring the system has the capacity to deliver the outcomes that learners require.

Where is intervention necessary?

The seminars considered areas where government intervention is required. Although there is caution among education professionals about the application of economic terminology to education, an effective market is simply about responding to the needs of individuals and customers. Therefore, the Government's responsibility should be to intervene where the market will not work effectively. Primarily this is likely to require specific measures for:

- Ensuring comprehensive provision in all areas, particularly of provision which is costly to provide – engineering, construction, etc. – and ensuring efficiency through rationalisation of provision
- Ensuring the availability of accurate information for customers
- Securing equity of access to the provision for all learners – free markets driven by profit motives do not deliver social justice, it was argued. The Government must intervene to achieve its social responsibilities
- Taking a long-term view of the needs of society and the economy.

The latter point is critical: the key customers of the Learning and Skills Council – individuals, communities and employers – will not be in a position to take a comprehensive and long-term view of society's political, economic and social needs. This remains the responsibility of Government and a necessary area for intervention.

It was also acknowledged that the Government may take a policy view that Britain suffers from a 'low skills equilibrium' and needs to be re-positioned as a high skill economy. Although the seminar did not accept the low skills equilibrium as a reality, it was accepted that government intervention to re-position the economy would be legitimate.

Learners as influential customers

Customers of education and training, including both employers and individuals, do not always behave as influential consumers and are not always treated as such. Provider responsiveness and customer empowerment both need improvement. The Learning and Skills Council prospectus makes welcome proposals to bring customer feedback more

strongly into the new framework. Customer feedback and satisfaction should become major drivers in the new system.

The influential customer is essential in raising the quality of provision in any sector of the market. In a service as vital as education, a typical customer response of choosing not to consume a product is not an acceptable solution. Intervention is needed to ensure that customers can engage and that the system is responsive to their needs.

It was also noted that in the learning market, learners/consumers lack an effective market sanction against poor quality providers. For example, learners do not get their money back or a credit note if they fail a qualification or are dissatisfied with the quality of the course. Individual Learning Accounts (ILAs) may change this situation, and more systematic arrangements for learner feedback could provide the basis for direct customer recompense for poor quality.

It was also argued that implementation of the *Learning to succeed* proposals needs to address the matter of how to engage learners actively in the learning community in ways that establish them as stakeholders.[5] Their capacity to manage and control their own learning is critical and needs to be built into the design of the system. Discussion centred around whether learners should view themselves as members of the institutions, or of local Learning Partnerships, rather than simply as customers.

Workforce development and meeting the needs of employers

The apparent failure of the education and training system to supply the skills needed by employers appears, as discussed earlier, to be the major focus of the *Learning to succeed* proposals. The Government is clear that national economic prosperity must underpin social reform and modernisation of public services, and has stated clearly that employment is the best route out of social exclusion. The Government's capacity to improve the operation of the economy is therefore paramount to achieving its policies, and *Learning to succeed* and the *Learning and Skills Council prospectus* therefore place great importance on ensuring that the needs of business are clearly articulated and inform the planning process.

Identifying the skill needs of small and medium employers

The *Learning and Skills Council prospectus* establishes detailed mechanisms for drawing together advice on 'skills supply and demand'

5. Mick Fletcher's paper (chapter 3) explores this aspect in detail.

at national, regional and local levels. Although the Prospectus does not use the term 'Labour Market Information' (LMI), the proposals raise concerns that the Government may be contemplating a detailed workforce planning approach. There is widespread scepticism about the value of LMI among providers and a view that 'LMI doesn't help plan a pattern of provision'.

The seminar questioned the way that employer needs can be articulated. A distinction was made in particular between the needs of very large employers and the needs of Small and Medium Employers (SMEs) which form the majority of businesses. While large employers are able to commit employee time to local, national or regional public work on committees and to working with their National Training Organisations for example, this is much more difficult for SMEs. It was argued that SMEs do not have the capacity to have representatives sitting on planning bodies, so their voices will not be heard through these channels.

The phrase 'SMEs don't use directories' encapsulated the problems. There is not a clear set of skill or support needs which, if only the SME were better organised, could be expressed and then catered for. An organic, interactive model involving discussion about identifying and meeting needs is required through a dialogue between the customer and the provider in a normal supply-chain relationship. Education is part of an employer's supply chain. The compilation of accurate information through a planning cycle does not fit the experience of SMEs. They have to be able to respond to rapidly changing circumstances within very tight parameters.

This view therefore challenged the capacity of a careful annual planning cycle to meet the needs of small and medium employers. The operation of the new Learning and Skills sector must not rely unduly on annual planning systems, but must facilitate local customer–provider dialogue to identify and address immediate needs.

The view that employers have not had an adequate voice or influence on arrangements was also challenged – they accounted for at least half of college governing bodies until changes introduced in September 1999 reduced them to a third, and they have played a major role in TECs. This suggests that engaging employers simply through representation is not enough. Therefore, an approach which simply attempts to put employers in charge is unlikely to be successful. More thought is needed about how to engage employers as effective and influential customers. Part of the approach should be through strategies to elicit demand from employers and assist them in articulating it; this was considered a major issue.

On the other hand, it was argued that although specific technical and practical skills are still the most important, the 'soft' skills of

working in teams, handling customers and turning up 'dressed for work' are increasingly sought. It was argued that there is significant consistency among employers about the nature of these generic skills.

However, neither these soft skills nor the specific technical and practical skills fit comfortably with existing qualifications. While employers are concerned to develop a capable workforce, the pressure on institutions is to deliver qualifications – outcomes that are readily amenable to measurement demonstrating good use of public funding to the Treasury. Thus there is a tension between the demands of accountability and the needs of employers.

Who pays?

Discussion about skills gaps raises important issues about what should be funded by Government and what should be funded by individuals and by employers. The Learning and Skills Bill states clearly that 'the Council must ... encourage employers to contribute to the costs of post-16 education and training'.

The respective responsibilities of Government, employers and individuals to fund education and training are unclear and have hampered effective relationships between employers and education providers. The third report of the National Skills Task Force[6] makes proposals for public funding up to level 2 for adults, but does not reach a view about a statutory framework for employer contributions to training. It is vital that the Learning and Skills Council should clarify the position. A split of responsibilities should be developed along the following lines:

- Employers pay for training of staff in job-specific skills
- Public funding pays for key transferable skills and subsidises according to social or future skills priorities
- Individuals contribute where their longer-term career prospects are enhanced: for example, individuals might fund qualifications since these were more likely to be of benefit to the individual than to the employer.

Institutional arrangements

Supply-side reforms to create a demand-led system?

While the objective of the White Paper is to create a demand-led system, the reforms primarily address the supply-side. These will not necessarily generate the new demand needed to meet the objectives of the new system.

6. *Tackling the adult skills gap: upskilling adults and the role of workplace learning*. DfEE, 2000.

Discussion at the seminars suggested that the aim of the reforms in the short term is to sort out the supply-side by addressing issues of quality, standards, accountability, purpose/focus, etc. This will provide the basis for a move, in the Government's next term of office, to a major promotion on the demand-side. The proposals therefore aim to ensure that providers are fit to deliver in a future system with the empowered, informed, self-financed learner at the centre.

This scenario therefore saw these reforms as an attempt to sort out the supply-side as a prelude to addressing the demand-side. Another perspective is that the proposals provide the basis for establishing mechanisms that can more clearly transmit policy decisions. Therefore the proposals aim to create a structure for more rapid government intervention, either systematically through planning mechanisms or intermittently through powers to address failure.

Roles in the new arrangements

There was considerable discussion about the roles and responsibilities of the many agencies likely to be involved in the implementation of the Learning and Skills sector. The respective roles of the local Learning and Skills Councils and the local Learning Partnerships were not understood by contributors. There was a concern that the new arrangements create additional layers, and that the added value from local LSCs needs to be identified. The respective roles and responsibilities of local Learning Partnerships and Learning and Skills Councils for adult guidance are not clear. A potential conflict of interest was identified in the allocation of responsibilities for guidance to LSCs who also had responsibility for hitting government targets. This could prejudice the impartiality of advice.

A need was seen for clear coordination between local LSCs and the Small Business Service (SBS), the view being expressed that it might have been better to combine them. Many of the measures needed to support employers in identifying and articulating their needs would fall more naturally to the SBS, while work to strengthen collaboration between providers might better be handled via Lifelong Learning Partnerships. This again raised the question of whether there was any real need for local Learning and Skills Councils.

However, a view began to emerge of the appropriate role of the local Learning and Skills Councils in carrying through, at local level, those government interventions that are needed to make the market operate effectively, namely by:

- Ensuring comprehensive provision in all areas, particularly of provision which is costly to provide, and by ensuring efficiency through rationalisation of provision

- Ensuring the availability of accurate information for customers
- Securing equity of access to the provision
- Taking a long-term view of the needs of society and the economy.

It was felt that these might be best operationalised at a local level and that they should provide the focus for the work of the local Learning and Skills Councils. However, there was no support for the local Learning and Skills Councils being given a role in the detailed numerical planning of places. Individual learner choice should be the basis for making provision.

The role of national targets

The importance of national targets was questioned, with some participants seeing the whole notion as inconsistent with the concept of a learning market. While targets as an expression of a national aspiration or ambition could have a symbolic role, there was concern that they might become key drivers of detailed planning decisions.

There was also concern that targets reinforced the preoccupation with what was measurable rather than what mattered. This aspect of a 'command and control' culture was seen by some to explain the preoccupation of funding agencies with qualifications when many employers and individuals found them to be of secondary importance.

The view was expressed that targets have in any event outlived their usefulness. All the important increases in participation in recent years have preceded the establishment of national targets.

Provider stability

An implication of establishing a 'fair and competitive market' (*Learning to succeed*) could be that providers fail or go bankrupt. While this is accepted among private training providers, it is not among public sector institutions. However, this could be a logical consequence of taking the market seriously. This raises questions about the role of a public sector and whether colleges are seen to have a particular strategic role within new arrangements. One approach would be for colleges to be developed as the 'built to last'[7] providers offering a network of high quality and dedicated centres, professional support and stability within a more diverse market. Alternatively, in a wider market with a larger provider base, failures could be more readily tolerated as they would not threaten adequacy of provision.

7. This idea is explored in *Work in the knowledge-driven economy*, DfEE, 1999.

Recommendations

The key question that has emerged from consideration of the operation and organisation of the new learning market is where the balance should rest between a market-driven or planning-driven approach – what should be driven by customer demand, and where is intervention required? The answer lies essentially in an assessment of whether customers are able to make appropriate decisions, or whether responsiveness to learner demand will be detrimental to the prospects of the individual and the economy. Consideration of these issues led to agreement at the seminars that informed customer choice is a sound basis for a learning market to operate, and scepticism about the capacity of a 'command and control' planning approach to deliver an efficient system. As a result the following recommendations are offered:

- The focus in implementing the Learning and Skills proposals should be on supporting the learner to be an informed and influential customer and on ensuring the system has the capacity to deliver the outcomes that learners require.
- The Learning and Skills Council should use its new powers to fund provision other than qualifications to ensure that providers are able to meet customer needs more effectively.
- Customer feedback and satisfaction should become major drivers in the new system.
- An effective market responds to the needs of individuals and customers. Government's responsibility should be to intervene only where the market will not deliver its objectives. Primarily this is likely to require specific measures for:
  - Ensuring comprehensive provision in all areas, particularly of provision which is costly to provide, and ensuring efficiency through rationalisation of provision
  - Ensuring the availability of accurate information for customers
  - Securing equity of access to the provision
  - Taking a long-term view of the needs of society and the economy.

The key role of the local Learning and Skills Councils should be to focus on the above functions at local area level.

- The respective roles and responsibilities of local Learning Partnerships and Learning and Skills Councils for adult information and guidance are not clear. A potential conflict of interest was identified in the allocation of responsibilities for guidance to LSCs who also had responsibility for hitting government targets. This could prejudice the impartiality of advice.

- The operation of the new Learning and Skills sector must not rely unduly on annual planning systems, but must facilitate local customer–provider dialogue to identify and address immediate needs.

The seminar series has explored how best to achieve the Government's aims for the operation of the new Learning and Skills system. This commentary and its recommendations are commended for wider discussion and to support the work of those charged with constructing the new post-16 education and training framework.

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2 Education and training as a learning market

Peter Robinson
Senior Economist
Institute for Public Policy Research

The Government's framework for post-16 learning (outside of higher education) has been set out in the White Paper *Learning to succeed* (DfEE, 1999a) and subsequent documents (DfEE, 1999b and 1999c). This discussion paper explores the possible contrasts between two of the principles set out by the DfEE, that:

- The system must be learner driven and responsive to the needs of individuals, businesses and their communities
- The system must respond to the strategic needs of the economy and national, regional and local skills agendas.

The first principle appears to signal clearly the desire to have a learning *market* driven by the needs of the learner, while the second principle appears to indicate that this market will be overlaid by a *planning* apparatus. The learning market will be further developed through common national funding tariffs. At the same time the National Learning and Skills Council will, from 2001, take responsibility for delivering the National Learning Targets, and local Learning and Skills Councils will have some discretionary funding to support local priorities and be able to vary locally the funding tariffs. Both the national and local bodies will have a significant employer presence. Does the learning market really need to be supplemented by this apparent attempt at planning?

Now of course all markets are in practice subject to some form of regulation and sometimes other forms of intervention, so that the pure market model exists nowhere outside of economics textbooks.

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However, few markets in western economies are overlaid with a planning apparatus. Why should further education and training require planning and what form should that planning take? To answer this question we need to explore the arguments which are put forward to suggest that further education and training suffers from significant market failures.

In looking at this issue, the paper sets out to explore three broad questions:

- What are the requirements for a learning market to function effectively?
- What gaps might be left by the learning market?
- What institutional arrangements would be suggested by an analysis of how a learning market should work and the gaps it might leave?

A distinction is often made between a 'demand led' system and a 'needs led' system, where the latter stresses the requirement to create demand rather than just respond to it. In this model one role of 'planning' bodies would be to stimulate demand for courses and qualifications which are seen to be in the national, regional or local 'strategic' interest and which the learning market on its own would not deliver. Additionally, or alternatively, a role of such bodies would be to stimulate demand from individuals or groups in the population currently under-represented in further education and training. These two roles are clearly distinct. One can have a body with a remit to reduce the barriers to learning for under-represented groups, but with those people choosing their own courses unconstrained by attempts to plan provision to meet 'strategic skill needs'.

The main criticism of the learning market being offered by those who see a much greater role for 'strategic' planning is that some of the choices made by individuals to do various courses appear not to match the requirements of businesses. It is alleged that many courses are taken which appear to have limited relevance to the 'needs' of the national or local labour market, while the strategic needs of employers are being neglected. Too many people do courses in media studies and hairdressing, while what industry really needs are engineers and IT professionals. The learning market does not appear to be matching supply and demand effectively.

The second key part of the argument must be that *planning bodies could do a better job* of matching supply and demand than the market and thereby overcome the mismatches which are held to exist. Only by intervening to promote and plan lifelong learning, rather than leaving it to the market, will the optimal level of investment in education and training be secured.

What are the conditions for a functioning learning market to exist?

Firstly, individuals need access to adequate *information* and guidance, and secondly an appropriate degree of *competition* between providers is necessary, to make informed choice a reality. In addition if individuals find it hard to borrow from private capital markets to *finance* their learning, there needs to be a funding mechanism which will either provide courses free or heavily subsidised, and/or provide 'soft' loan facilities. The State plays a further regulatory function in ensuring that institutions offering education and training meet certain quality *standards*. If these four conditions are satisfied then a learning market should work reasonably well, and arguably without the need for national, regional and local 'planning' bodies.

To illustrate further what is meant by a well-functioning market we could consider the market for a commodity which is even more important than lifelong learning: food (see also Barr, 1998). The example of food has been picked because it is sometimes alleged that post-compulsory learning is too important to be left to the market. But food is even more important and, with important provisos, we do leave more scope for the market to operate. The State's main function in ensuring adequate nutrition of the body rather than the mind is firstly, to make sure through the tax and benefits system that everyone has sufficient income to sustain a reasonable diet (although the poverty statistics may suggest some government failure here). In addition it regulates to ensure food quality (again not always successfully), and to make sure consumers have enough information to make choices, and to promote adequate competition between food retailers.

Once these conditions are satisfied, things are left up to the market. Consumers of food do not come together to coordinate their purchases; providers of food do not coordinate the supply side of the market (and might run foul of the competition authorities if they tried to). There are (outside of wartime) no regional food development agencies or local food councils to supplement the market with a planning apparatus designed to achieve a better balance between the supply and demand of different foodstuffs than would be achieved by the market alone.

The question is whether the learning market is significantly different from the market for food to suggest a different approach which places less emphasis on the market mechanism? (n.b. the arguments which follow relate to post-compulsory learning; a different set of arguments relate to schools.)

One market failure widely regarded as a legitimate concern is the problem that some individuals may not be able to access easily and cost-effectively the *information* which would allow them to make rational choices. Most countries provide information and advice

through specific guidance and careers services or through the public employment service, seeing information as a public good. So for the learning market to work the first condition is that the learner must have enough good quality information to make informed choices. This means that the labour market must send out fairly clear signals to individuals about the qualifications which are going to receive decent financial rewards. Individuals must respond to these signals and *planning bodies must not be able to read the signals significantly better.*

It is therefore fairly straightforward to test the hypothesis that the learning market is failing. Using systematic research which looks at the returns to qualifications, do we observe individuals by and large taking rational decisions in relation to lifelong learning opportunities? Or do the planning bodies and the other institutions from which the planning bodies draw their members appear to have a better grasp of what is really going on?

One concern in the UK policy debate is that whereas the returns to HE qualifications are well researched and appear to be pretty unambiguous, the returns to FE qualifications for some individuals could be less clear cut and there is evidence that this does concern some people undertaking FE courses (Callender, 1999).

Given the better research on returns to HE qualifications, it is worth looking at some of these results before looking specifically at further education. The allegation aimed at higher education is that too many people take courses like media studies and not enough do science and engineering. This is held to be both irrational from the point of view of the individual and certainly irrational from the point of view of the economy. Blundell *et al.* (1997) used the 1958 National Child Development Study to look at the returns to different HE qualifications, controlling for a whole range of background factors which might also influence earnings. They found that for men, degrees in biology, chemistry and geography delivered significantly *lower* earnings than other degrees. For women, degrees in education, economics, accountancy and law paid off with significantly *higher* earnings. For both genders, degrees in maths or physics did not yield significantly higher earnings when compared with other degrees.

Many of these results run counter to most people's intuition – but then that may be the problem. The planners' views about what are the 'right' courses to fund more generously in the national or local 'strategic' interest may be influenced as much by intuition (or prejudice?) as any systematic evidence. The point is that if we see the proportion of men taking biology and chemistry, or people as a whole taking maths and physics, is not as high as 'we' would like it to be, this could be

confirmation that individuals are reading the signals from the labour market better than 'we' – the planners – are. And let us be clear about what these signals are: *employers* are not paying people with science degrees an earnings premium in the labour market. Yet it is the representatives of these same employers who play a major role in the planning bodies which assert that the UK economy does not have enough science graduates. This just goes to demonstrate the one iron law in this debate: *do not listen to what employers say, look at what they pay for.*

This author is aware of no systematic evidence on the earnings of media studies graduates when compared with other graduates, so the claim that there are too many of them appears to lack any firm empirical foundation. It may reflect anecdotal evidence or prejudice. In the 'knowledge based' economy which is said to be evolving, the study of Greek, Latin and classical literature and history may appear to have no place. Yet the anecdotal evidence that classics graduates on a whole do rather well in the labour market is at least as strong as the anecdotal evidence that media studies graduates do not. This further illustrates the point that broad conceptions about what the 'needs' of the economy are may well not conform with what the labour market does actually reward.

Turning to further education, aside from the complaints about too many hairdressers, it is frequently alleged that the UK economy suffers from a general shortage of people with intermediate vocational qualifications. Indeed two key academic critics of the lack of planning in further education to match the needs of economic development, when referring to 'extensive' evidence of a substantial mismatch between student preferences and skill shortages as perceived by employers, point to the problem of too many students opting for 'academic' rather than 'vocational' programmes, as well as opting for inappropriate vocational options (Morgan and Rees, 1999).

Unfortunately for this argument, employers send out through the labour market wholly unambiguous signals that academic qualifications result in significantly higher earnings than notionally equivalent vocational qualifications (see Robinson, 1997a). Indeed, level 3 vocational qualifications yield earnings similar to those which could be expected by someone holding five or more O-levels or higher grade GCSEs; while the earnings of people with A-levels match those of people who achieved level 3 and then level 4 vocational qualifications such as the HND (see also Blundell *et al.*, 1997, who confirm these findings). Moreover, this lack of 'parity of esteem' between academic and vocational routes appears to hold in other countries, including Germany.

So when we see a large majority of 16 year olds with high levels of attainment at GCSE opting for the A-level route rather than, say, GNVQs,

this appears to be a wholly rational reflection of the returns signalled through the labour market. And those who criticise these patterns of enrolment are the ones who appear to be behaving irrationally and without regard to the evidence.

As for 'inappropriate' vocational options, two other authors have expressed worries about the large numbers of graduates from nursery nursing and GNVQ leisure and tourism courses (Felstead and Unwin, 1999). Given that the care occupations are the fastest expanding occupations in the lower half of the labour market, the popularity of nursery nursing courses does not seem misplaced. Moreover, the DfEE itself makes great play of the statistic that 1·75 million people are employed in the 'tourism-related' industries. In fact, this statistic is rather misleading, as the majority of those 1·75 million have relatively low paid jobs in bars, cafés and hotels. The point is that in this case, the information coming from those agencies wishing to 'plan' provision may be contributing to unwise course choices.

There is indeed plenty of evidence of official and quasi-official bodies giving out biased and incorrect information about the returns to qualifications or what the changing labour market requires – information which in some cases amounts to propaganda. This problem arises especially when bodies have been given conflicting remits. So if a vocational qualifications council is set up so that its success is judged by how many people take the vocational qualifications it is developing, the same body cannot be expected to give impartial advice on the different qualification routes which are available to people, because that would require giving out information on competing vocational qualifications.

The survival of a whole range of 'other' vocational qualifications ('other' in this context means other than NVQs and GNVQs) and the expansion of Open College Networks allowing colleges to provide short courses in specific skills geared to local employers (noted by Felstead and Unwin, 1999) is proof positive that the market works. There is a demand for these courses from individuals and employers and they have maintained some market share despite the indifference, and, in the case of the 'other' vocational qualifications, at times downright hostility, of the 'planners'.

This discussion leads to one clear policy conclusion: the body or bodies which provide *information* and guidance to learners must not have their own axes to grind because they have been given other targets as well, for example to achieve particular levels of qualifications in the adult population. This raises serious doubts about the Government's plans to give the National Learning and Skills Council and the Local Councils responsibility for the planning and funding of adult

information, advice and guidance services. They will be advising adult learners at the same time as they will be responsible for meeting their own targets and plans to achieve certain qualification outcomes. How can this not lead to the Councils giving information which is potentially biased, advising people to take courses not because it is their own best interest but because it will help the Councils meet their own targets?

There are legitimate concerns that young people in 11–18 schools do not get enough information about the range of learning opportunities which might be available in an area, and there is general concern about the guidance available to adults. But in designing the right institutional framework, conflicts of interest must be avoided. The primary purpose of improving the flow of information and guidance is to enable better choices to be made by learners and other purchasers of education and training – not to facilitate planning.

The second condition for a functioning learning market is an appropriate degree of *competition*. Competition has a role to play in putting pressure on institutions and departments within institutions where successful completion rates may be low. Informed student choice creates that pressure. A market failure which might affect local provision of further education is the absence of a sufficient number of education and training institutions to offer learners an adequate degree of choice within a travel-to-study area. This seems more likely to occur in small towns and rural areas where there may be elements of local monopoly. In such cases of local monopoly the answer is regulation: that is to say an adequate quality assurance mechanism to make sure that courses which are being offered are of a high standard, even in the absence of local alternatives.

A related market failure could arise if there are economies of scale that make certain courses uneconomic to run without a larger pool of learners than is locally available. The start-up costs for certain technical courses for which there is a demand might also be prohibitive for local providers. Across localities there may be different costs for providing certain courses which have arisen for historical reasons. So there does appear to be a role for a local 'planning' body that can offer modest pump-priming funds to sustain or start courses that might otherwise be uneconomic. There may occasionally be a role for pump-priming funding to help new providers to set up, if the existence of a local monopoly was felt to be inhibiting.

The main market failure as far as individuals are concerned could lie in the capital market. There is considerable evidence that individuals in practice do find it hard to borrow to *finance* lifelong learning, using the 'collateral' of a higher stream of earnings in the future. This could

reflect the uncertainty of financial institutions about the returns to some qualifications or difficulties in collecting the returns. In practice all countries provide free or heavily subsidised initial post-compulsory education and training, and offer some form of government backed loans facility for some of the costs of higher education. The historical paradox has been that these loans have been more easily available to younger full-time students in higher education, where the returns to qualifications are much easier to demonstrate, than to older and part-time students and those in further education where the returns are less clear. Here then is a clear 'governmental' failure, but putting it right means looking at the public funding of students of different ages on different qualifications routes, and is not solved by further 'planning'.

Clearly there are some groups which have been under-represented in further education and training and addressing these inequalities would be a key role for any local agency. It may not be possible for individual institutions to tackle those barriers – which result from lack of financing, child care, or adequate local transport – that diminish opportunities for certain individuals. If we regard these barriers as 'market failures', then they would all seem to stem from the problem of lack of income and lack of opportunity to borrow. However, improving access to courses does not imply having to plan what courses people are going to be steered towards in order to meet local 'strategic' targets.

The other market failures which are frequently addressed in the literature relate to *firms* themselves under-investing in training at the workplace, rather than to the failure of the learning market as such. The first such possible market failure is that there are external benefits of education and training to the economy over and above the benefits to individuals or firms. For example, a highly trained workforce could help firms to produce new technology or other innovations which can then be exploited at no extra cost by other firms. This external benefit is not captured by the firm that does the training and the innovating, and this will lead to lower levels of training than is optimal. However, this argument is essentially the one that education and training generates economic growth and there are significant problems in demonstrating this empirically in a convincing manner (see Robinson, 1997b and Ashton and Green, 1995).

Another problem which might affect firms is poaching. If firms provide training which leads to transferable skills, then this might make the individuals who receive that training more attractive to other employers, who might poach the trained workers. If firms fear such poaching they will under-invest in training. However, if this is a problem, then the evidence on the amount of training undertaken by British firms does

not suggest that it is a problem which affects British firms more than those in other countries (OECD, 1999). There is also evidence that individuals who do receive employer provided training appear to be marginally less likely to leave that employer (Dearden *et al.*, 1997).

These market failures, if they are serious, would lead to arguments for policy instruments which affected the behaviour of firms. It is one of the paradoxes of the debate that those business organisations which frequently argue for the 'planning' of the learning market, presumably on the grounds of some market failure, are also the same bodies that argue against greater regulation of workplace training even though arguments relating to market failure operate here too.

How do employers influence the learning market in a market based economy? They do so by sending clear market signals about what they are prepared to pay for, and by acting as purchasers of training themselves. This is likely to be far more effective than sitting on planning committees, especially for those smaller enterprises who do not have the time for such luxuries as joining the board of a local learning and skills council.

Do the purchasers of education and training – individuals, firms, the Employment Service (on behalf of jobseekers) – need to be coordinated (in a way which consumers of food do not)? It is hard to see why – they can all make their own decisions about what education and training they want to purchase without reference to what the others want.

There does seem to be stronger case for some form of coordination for the providers – schools, colleges and private training organisations. In part this is to deal with the issues raised by the need to secure economies of scale for certain courses and think through rationally who might develop certain new courses where there is a likely but uncertain market demand and/or where start-up costs are problematic. However, existing local Learning Partnerships were set up precisely to perform these functions. It is not clear what additional value added will come from the local Learning and Skills Councils. If the argument is accepted that the local learning market does not need a great deal of planning; that the decisions made by local planning bodies are not likely to be better than those made by market participants and *could be a lot worse*; and that the discretionary funding of local bodies could amount to modest sums for pump-priming; it is unclear that Councils are required in addition to Partnerships.

One issue is administrative costs. The TECs are being abolished in part because the DfEE thinks their administrative costs – at about 7·5% of total funding on average (Felstead and Unwin, 1999) – are prohibitive. It is with some irony then that 8% of the total funding

of the English Regional Development Agencies will be taken up by administrative costs. It is hard to see the 47 local Learning and Skills Councils not having similar overheads to the 72 TECs which they are in part replacing.

Conclusions

Many people are put off by the language of the market. However, if the statement was made that institutions need to be sensitive to the requirements of learners and plan what they offer around those requirements, few would object to this use of language. Yet this is just another way of saying providers must be responsive to the market. However, economists and others need to be aware that relationships in the public sector are not purely market driven, in the sense that there has traditionally been a collegiate relationship between staff at different institutions which does yield benefits, but which inappropriate reliance on the market mechanism may undermine.

Assessing the appropriateness of market institutions in different sectors is not something that can be driven by ideology – it is an empirical question. It is consistent to argue that the learning market can work reasonably well in further and higher education and training, but that a market based approach would be inefficient and inequitable in schools and in the health service. The evidence is overwhelming that adult learners by and large make quite rational choices based on a reasonably good reading of the signals coming from the labour market, and that those who would like to 'plan' have – and I put this kindly – a much less good understanding.

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3 Learning and skills as a mutual enterprise

Mick Fletcher
Development Adviser
Funding Learning, FEDA

Summary

Increasingly, arrangements for the provision of learning and skills have been conceptualised as a learning market and models of economic behaviour have provided useful insights into how they might be better organised. The concept of 'mutuality', by contrast, stresses some of the advantages of organisations which involve people as citizens rather than just consumers or producers. There are grounds for suggesting that the 'mutual' approach might be particularly appropriate for aspects of education and training.

Key advantages of the 'mutual' approach include the efficiency of 'high trust' systems, the ability to handle circumstances where what is rational for the individual differs from what is rational for society, and the capacity to engage a greater and more enthusiastic commitment of individuals than contract compliance. Examining the government proposals for the reform of post-16 education and training in the light of the concept of mutuality suggests that some of its advantages appear to have been recognised, but more might usefully be incorporated.

Introduction

Over the past twenty years the world of education and training has become accustomed to the language of the marketplace. To talk about students as 'customers' or to describe college activities using the concepts of the market no longer arouses the passion and hostility from teachers that one frequently encountered in the late 70s and early 80s. 'The Learning Market' is accepted as a description rather than an ideological challenge.

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This change seems to be a product of two factors. There is, on the one hand, an acceptance that marketing concepts can in themselves be neutral. One can argue for a free, unregulated market or a substantially managed and manipulated market. The tools of economic analysis can help us understand the ways in which either sort of market can work under different types of constraint. There is, however, another and parallel change which has taken place over approximately the same period. This is the increasing dominance of the view that in most spheres of activity, a relatively free market is more likely to be effective than a highly regulated one. It is a political change which finds its most dramatic expression in the collapse of the Soviet Union and the wave of privatisation in the 80s and 90s. It finds echoes in proposals to reform education which rely substantially on finding ways to increase competition or consumer choice.

Taken together, these two trends have tended to straitjacket debate about the choices we face in relation to public services. The triumph of the free market right and increasing discomfiture of the traditional left at the political level means that the choice is simply how far and how fast to privatise. The economist can help by itemising features of the ideal market and directing attention to aspects of the real world which may require attention. Effective markets require producers and consumers to have good information, so in the education market there is an increased focus on information and guidance services.

There are many who see serious difficulties with this consensus. An unease about the effects of increasing privatisation coupled with an acceptance of some of the obvious limitations of state planning underpins the political search for a 'third way'. To date it is perhaps easier to say what the 'third way' is not, rather than what it is, but the will to find an alternative to the choice between unregulated markets and discredited state planning is very real. The articulation of the principle of mutuality needs to be seen in this context.

Mutuality

There is growing interest in mutuality as a form of social and economic organisation. Ironically it may have been sparked by the disappearance of many of the largest existing mutuals, the building societies, several of which have converted to limited companies in the last few years. Despite these very public setbacks to the mutual movement, it remains strong in a very diverse range of activities and in some spheres seems to be making serious growth.
Charles Leadbeater and Ian Christie in a Demos publication

To our mutual advantage[1] chart the range of mutual enterprises in the UK at the present time and begin an analysis of their particular strengths and weaknesses.

The aim of this paper is to look at how the principles of mutuality might inform an assessment of the proposed arrangements for learning and skills. It offers an opportunity to step outside the debate on how far and how fast to privatise, and provides an alternative basis for judging the impact of proposed changes. To that extent it may help change the terms of the debate which run the risk of being constrained within a limited version of the market paradigm.

There are good reasons for thinking that the concept of mutuality might help illuminate the world of learning and skills. At the common-sense level, education and training are 'mutual' activities:

- We generally learn from and with others
- I cannot buy learning; I can only buy assistance to learn
- Knowledge is something that you can give to others without losing any of it yourself
- Training is an activity which in many cases can only benefit an individual if it also benefits someone else.

At this very superficial level it is clear that education and training are very different from many other goods and services. This is likely to have implications for their production, distribution and exchange.

At a more theoretical level what mutuality is based on is a particular type of engagement with social activities. The market might be seen as a set of rules or constraints which govern interactions. We can approach the same set of rules in different ways. To take a simple example, within the fixed rules of tennis we can approach a game as a competitor, thinking only of winning; as a coach encouraging a child to develop or as a flatterer, losing deliberately in order to curry favour.

The traditional debate between free markets and state planning has cast the individual as one who engages essentially as a consumer; in the former, one who exercises choice through purchases, and in the latter one who either has choices made for them by experts or 'chooses' through occasional ballots. It is essentially a one-dimensional role and to the extent that it describes our behaviour particular classes of problem arise.

One sort of problem is that if we simply act as consumers we are increasingly confronted by unintended outcomes that we do not like. If we buy the cheapest eggs we end up with battery hens; if we shop at out of town megastores we kill off town centres. We can call these

1. Leadbeater C, Christie I. *To our mutual advantage*. DEMOS, 1999.

'responsibility' problems. Another class of problem arises from the fact that often what represents rational action for an individual becomes irrational if taken by all individuals. I may choose a particular holiday location because it is remote and peaceful; if others do the same we defeat each other's intentions.

People and markets – a typology

The basis of a mutual approach is that we can engage with the world of production and distribution as citizens rather than just as consumers. We can choose to do more than seek our own immediate advantage. It may make sense for us to approach the education market in this way. To illustrate the nature of the choices we face, we can construct a typology by combining the traditional distinctions between a free market and planning with that between a consumer and citizen as set out below.

	Free market	Planning
Consumer	1	2
Citizen	3	4

To caricature a little, we have at 1 the 'irresponsible consumer' who buys the cheapest tuna without worrying about whether it is 'dolphin friendly'. At 3 we have the 'concerned consumer' who pays a little more for free range eggs or bananas from the Windward Isles. At 2 might be the stereotypical welfare dependant living in social housing which they don't look after. The classic mutual is located at 4. At its simplest, the question for learning and skills is not simply where to position elements on the left-to-right scale but also on the vertical dimension.

To complicate it only a little, the figure above could be repeated for producers. They too face the choice between limited economic rationality and a wider engagement with social purposes. The importance of this dimension is illustrated by recent FE history. The fact that some colleges engaged in a huge expansion of dubious out of area franchising while others did not is better explained by variations on the vertical axis than the horizontal one. All colleges faced similar market circumstances, but most allowed their values and mission to override a financial opportunity.

To conclude this theoretical analysis, we can briefly return to the two classes of problem which can be caused by a narrow economic rationality on the part of consumers or producers. 'Responsibility' problems, the unintended consequences of individual actions can be tackled by type-3 solutions – the 'active citizen' who thinks before

buying (or indeed selling). The Treasury report *Enterprise and social exclusion*[2] considers ways of developing an active citizenry including the concept of 'social labelling'. The other type of problem, those issues which individuals cannot in principle tackle alone need type-4 solutions; the development of cooperative ways of working. In looking at the proposals for post-16 education and training, we need to ask how far the proposals encourage developments which will address these sorts of problems.

Strengths of mutual organisation

Before addressing learning and skills directly it is worth looking at some rather more specific examples of the strengths of mutuals. It will help identify analogues in the learning and skills market. From the literature four distinct aspects of the strength of mutuality can be summarised.

Mutual organisations can work particularly efficiently through being high trust organisations. They avoid the substantial overheads needed to police interactions when individuals cannot trust each other. The low overheads of a credit union are maintained by the 'common bond'. They build on the probability that individuals who know each other and have something in common will honour their debts and obligations. The success in business of some minority groups owes much to the security derived from being able to rely on someone's word.

Trust relationships form part of what economists refer to as 'social capital'. Social capital, like other forms of capital can be built up through investment or dissipated. It can yield a return. We should note that trust is a necessary (though not always sufficient) precondition for the solution of some of the problems identified above. 'I will if you will' hinges on trust.

A second strength of mutuals is that they provide a context for participants to identify the implications of their actions. A producer cooperative works to the extent that individual participants modify market behaviour for the benefit of all. This is often underpinned by trust (though regulation can also perform the same function – farmers can only sell fleece to the wool marketing board). The key issue is that mutuals support a conscious engagement with the market rather than a limited and detached one.

A third characteristic of mutuals is that they are often capable of commanding a higher than normal degree of commitment from participants. Individuals are not always concerned with profit

2. *Enterprise and social exclusion*. HM Treasury, 1999.

maximisation and mutual arrangements are well placed to harness other motivations. A classic case quoted by Leadbeater is the Linux software, developed voluntarily by hundreds of individual programmers and given away. Although it sounds improbable, this somewhat anarchic development process has generated a product that can compete against the might of Microsoft.

Finally elements of mutuality help manage the special circumstances of co-production where the output is produced by the customer. To purchase books all I need is money, but to learn I have to work. Education is not unique in this respect. Health has similar characteristics and it is perhaps no accident that fitness clubs are not called fitness shops.

Mutuality in education and training

One feature of the conflict between public and private interest is the development of vicious circles. A well-rehearsed example in the education sector, recently highlighted in a series of articles in the *Guardian*[3] is the destabilisation of comprehensive schools by parental choice. Well informed parents will tend to move their able and well supported children away from under-performing schools, thus helping to reduce the school's performance still further. Success breeding success and failure breeding failure is the educational counterpart of a banking system which takes savings from people in poor areas and lends it for investment in rich areas. In recent FE history the excessive focus on equalising the average level of funding (ALF) may have had a similar effect. Colleges with a low ALF were rewarded with a greater share of growth funding; new uncommitted money could be devoted to new provision generating more students and reducing ALF again.

The preconditions for solving such problems include recognition and mutual ownership of the problem. As indicated above there also needs to be a reasonably secure environment for participants, otherwise the imperative to survive will dominate. The experience of the FEFC with consultation supports this proposition. Although meticulous in consulting colleges on proposed changes to policy, the results of such consultations often simply reflected the balance of interests in a competitive sector rather than the merits of the case. Proposals for a London weighting, for example, tend to attract support from London colleges and not from those outside the capital. It is not clear how the arrangements for the new sector will try to generate a common ownership of key problems, whether among 'consumers' or 'producers'.

3. Davies N. Crisis, crisis, crisis: the state of our schools. In the *Guardian*, 1999.

The analysis does not only relate to public sector institutions. One of the best illustrations of the public/private interest conflict is the attitude of many employers to training. Small employers in particular are reluctant to train because of the fear that their employees will be poached, yet admit to suffering from skill shortages. It is a problem clearly needing a mutual solution. The establishment of voluntary training boards or group training associations are possible answers which reflect mutual principles. Interestingly the NTO National Council, without mentioning the word 'mutual' has recently put forward proposals along these lines in a paper subtitled 'Rights and responsibilities in a new learning age'.[4]

The development of arrangements for accreditation offers a striking illustration of mutual principles being put into operation in the FE sector. The growth of Open College Networks, (OCNs) which provide accreditation for college devised programmes represent a development similar to the creation of Linux software in the IT industry. Thousands of college staff give time and effort to develop OCN accreditation in a way which contrasts markedly with the widespread resentment of the major examining bodies and regulatory authorities. The key difference is ownership. College staff see OCNs as meeting the needs of their learners. Consideration needs to be given to how this enthusiasm can be harnessed for wider purposes. A mutual approach to the development of a credit framework immediately commends itself.

Learning to succeed

The White Paper *Learning to succeed* proposes radical changes to the way in which the organisation of education and training for those over the age of 16 will be planned and delivered. In places it makes explicit reference to market concepts, although it is not immediately clear whether the resulting market will be more or less regulated than at present. References to concepts derived from mutuality are less explicit though there are several references to partnership. An analysis of the proposals in the light of the concepts around mutuality is illuminating.

One test which might be applied to the White Paper is to assess whether it seeks to build high trust or low trust structures. To the extent that it encourages the former it may be said to be capitalising on the strengths of mutuality; to the extent that it does not it is perhaps missing an opportunity. An initial analysis suggests that the document is not consistent.

4. *Towards a new investment framework for skills*. NTO National Council, 1999.

The proposed arrangements for inspection seem to move away from trust. Current arrangements by FEFC and TSC are firmly based on support for self-assessment. They seek to involve providing institutions as partners and evidence from both sectors suggests that this has been successful. The new proposals are for inspection to be more external and separated from quality improvement. The analysis of mutuals suggests that this is likely to be the less cost-effective solution. In practical terms it raises fears that energy will be spent on proving quality rather than improving it.

In other respects the White Paper proposals are supportive of the development of more mutual arrangements. The support for local learning partnerships is the clearest example. Many of the problems of local provision cannot be solved by competition or by individual action. There is a need to collaborate to protect specialist provision; rationalise if there is uneconomic duplication of classes and ensure that student support funds are spent for the benefit of learners rather than the market position of institutions. There needs to be more recognition however that collaboration cannot just be prescribed. It needs specific support and not to be undermined by other aspects of the new arrangements such as 'opening up the market to new providers'. There is little indication of how a collaborative approach is to be fostered in the White Paper.

One particularly compelling aspect of mutuals is that they illustrate the advantages of engaging broadly with an individual as a member of a community rather than narrowly as a customer or producer. Their experience in many sectors suggests that greater efforts and expertise can be drawn on if participants are so regarded. In this respect the White Paper is particularly deficient. Whether it is dealing with individuals or organisations, with consumers or producers, the White Paper focuses on their narrow contractual role rather than how they might engage more widely.

Two examples will suffice:

- The arrangements set out in the White Paper are highly centralised. There are local councils but they are merely arms of the central council. They have no independent legitimacy. In almost every other OECD country local democratic structures are associated with the management of education and training. Local communities have rights, but also responsibilities; they usually have to pay some of the costs. In England, almost uniquely in the developed world, they are relegated to the role of consumer. It misses an opportunity to engage local skills, energies and resources in a truly mutual enterprise.

- The neglect of the potential role of those key actors characterised as customers is paralleled by a limited vision of how those seen as providers can contribute. They are there to be steered, inspected and incentivised. There is little recognition of the fact that to a large extent, they still share the aims of the enterprise: or that it is the extent of their commitment, vision and imagination rather than the composition of a local committee, which will determine whether the system is responsive and dynamic. In the absence of commitment there are serious risks of goal displacement illustrated to date by tariff farming and the excesses of franchising.

Indeed, the reliance on competition alone to bring about quality and efficiency neglects the growing trend for successful businesses to develop long term cooperative relationships with their supply chain. To quote a recent author:

> *The traditional adversarial way of interacting with suppliers attempts to minimise the price of purchased goods and services by playing a large number of suppliers off against one another through arms length, short term contractual arrangements ... While this approach may gain price concessions in the short term it cannot establish the trust, commitment and information sharing necessary to achieve mutual success.*[5]

Conclusions

The development of thinking about mutual forms of organisation is capable of shedding useful light on the Government's proposals for a new learning market as set out in *Learning to succeed*. In particular, the concept of mutuality highlights the need to think about aspects of social capital and its contribution to efficiency and effectiveness in the market for education and training. We need to ask whether any new arrangements are likely to add to or subtract from the social capital stock; while there are some positive features there are aspects of the White Paper which appear to dissipate it.

Mutuality also offers an effective way of managing markets where the external costs of individual transactions are significant. The education and training market is one where some of the external costs are particularly high; mutual approaches to organising the relationships between providers and consumers, and between providers and purchasers might usefully be given greater prominence in the proposed arrangements.

5. Spekeman. *Effective supplier relationships*. 1988.

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4 The new learning market: who pays, and for what?

Geoff Stanton
Senior Research Fellow
University of Greenwich

Introduction

Conventionally a 'market' consists of consumers who buy goods or services from a producer. A problem when applying the concept of a 'market' to learning is that:

- Often there is a 'proxy' customer acting on behalf of the learner
- We always have to use proxies for what is purchased, since learning as such cannot be bought
- Sometimes it is necessary to make the purchase using a proxy for cash.

This paper explains why this is the case, and:

- Identifies some of the implications of there being multiple 'customers'
- Examines the extent to which Individual Learning Accounts either could deal with these implications or need to take them on board
- Discusses whether individuals would wish to purchase different 'proxies' for learning from those used by funding councils
- Explores how learning programmes and qualifications in particular, but also inspection and regulatory regimes, might have to change in order to facilitate a learning market in which the individual learner is the primary customer.

I have to appeal for the reader's understanding here. As someone who works with curricula and qualifications I have come to realise that I cannot get away with ignorance of funding, because of its impact on quality and entitlement. For similar reasons, I believe that those interested in funding and markets need to have an understanding of the 'core business' that is being resourced. I have attempted to avoid

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jargon and complexity as much as possible, but in the end, as Rousseau arrogantly said:

> *I warn the reader that this (chapter) requires careful reading, and that I am unable to make myself clear to those who refuse to be attentive.*[1]

Who pays?

Relating payment to benefit gained

It is usual for the consumer also to be the person who pays. However, in the case of education and training it is common for a third party, for instance the State or an employer, to pay on behalf of the learner. The third party may meet the full cost, or may make a contribution.

If by 'consumer' we mean the person or organisation benefiting from what is provided, then a further complication is that 'learning' as a product (if that is what it is) brings benefit to more than one consumer simultaneously. For instance, the development of occupational competence may be to the advantage, in varying degrees, not only of the learners themselves but also their employers, families and the community at large. Therefore one question to be asked is: 'How far can the cost of learning be distributed fairly amongst the beneficiaries?'.

It may be important to distinguish between direct and indirect benefit. More precisely, the benefits may fall on a spectrum from direct to indirect. An employer, for instance, may pay for the training of an employee because the company has a direct and immediate need for that employee to possess a given occupational competence (which might be represented by an NVQ). Alternatively, a firm might sponsor an employee in obtaining a vocationally oriented degree, on the grounds that it will benefit over time from the enhanced 'human resource' that results. At the other extreme of the spectrum, the Ford motor company has an employee development (EDAP) scheme which pays for any learning an employee wishes to undertake, up to a specified annual financial limit, on condition that it is not vocational. This scheme is intended to produce the kind of indirect benefits (in terms of morale, staff retention, etc.) that also result from other employee facilities, such as access to social clubs or occupational pension schemes.

Another feature of learning as a product is that it may, in the short term at least, encumber the '*consumer*' with costs that are additional

1. Rousseau J-J. *The social contract*. Book 3, chapter 1, first paragraph.

to, and sometimes greater than, any fees payable to the provider. For all learners these may include the costs of travel, special clothing, learning materials and equipment such as calculators or kitchen knives. Of greater significance for adult learners may be childcare costs, or the need for maintenance payments to cover loss of income. A consequence of this is that a third party that wishes to promote learning may need to make payments to the learner rather than, or as well as, the provider.

For the most part, this paper will focus on that funding which has to reach a 'provider' of learning, though issues relating to funding the learners will arise.

One way of creating a more straightforward 'learning market' would be to enable each contributor to purchase that part of the learning programme from which they benefited. Thus that part of a vocational programme which directly benefited the employer would be funded by them, whilst another part which the State wished to see as part of the programme (possibly in order to develop the economy in the long term) would receive government funding. The individual would fund aspects of the programme that improved their own promotion prospects or lifestyle, but which produced no direct benefit to others. However, this approach would have significant implications for the structure and organisation of qualifications and learning programmes. This issue will be addressed in a later section.

Individual Learning Accounts (ILAs)

Their contribution to a learning market

Another approach that would appear to simplify the 'market' is one that channels all funding, from whatever source and for whatever purpose, through an Individual Learning Account (ILA). The individual learner then purchases whatever is required for their learning, and is the only one who has a 'contract' with the provider.

The green paper *The learning age* outlined the following purposes for ILAs:

- *Increasing total funding by providing a greater incentive for*
  - *individuals, and*
  - *businesses*

  to match the Government's investment
- *Increasing choice for individuals*
- *Encouraging individuals to take responsibility for their own learning*
- *Increasing the responsiveness of institutions to individual's needs.*

The learning age also states that two principles underpin thinking on the development of individual learning accounts:

- *That individuals are best placed to choose what and how they want to learn*
- *That responsibility for investing in learning is shared.*

ILAs and learner control

The first of these principles is supported by that part of the later White Paper *Learning to succeed*[2] which advocates 'a system driven by the needs of the learner' (page 3). However, it makes an interesting contrast (to put it tactfully) with paragraph 3·7 of the same document which says the functions of the national Learning and Skills Council (LSC) include 'ensuring that high quality post-16 provision is available to meet the needs of employers, individuals and communities.' The implication here is that these needs are not identical, and it will therefore be for the LSC to be an intermediary, acting as both a planning agent and as the primary customer.

This interpretation is reinforced by the later *Learning to succeed: update*[3] where it is stated that:

> *Our expectation is that the local LSCs will make the running on* ***identifying the skill needs of the local economy and community*** [their emphasis] *and using a powerful range of levers to ensure they are met, including:*
>
> - *negotiating the budgets and plans for colleges and work-based training providers thereby exercising a key influence on which FE courses and training programmes will be funded and in what volume in their areas;*
> - *deciding how, within nationally agreed limits, the national funding tariff will be varied locally to give providers clear incentives to meet priority local skill needs.*

ILAs and saving to learn

With regard to the second principle, 'that responsibility for investing in learning is shared', it seems to me that the interpretation of this has changed over time. When first enunciated, the aim of using individual learning accounts to 'encourage people to save to provide for their own training needs' seemed central to the Treasury's thinking[4] and to what

2. *Learning to succeed: a new framework for post-16 learning*. DfEE, June 1999.
3. *Learning to succeed: update*. DfEE, September 1999, page 2.
4. Treasury post-budget press release, May 1998.

the *Pathfinder prospectus*[5] said about the funding of the Ufi. Since then, awareness has grown that the majority of the population is unlikely to be able to tie up significant amounts of cash in an ILA. This is even more true of that section of the population which is most in need of additional learning opportunities. Even if individuals have any surplus income, other financial products are competing for it. For instance, the recently introduced Individual Savings Accounts (ISAs), appear to be more attractive than ILAs. ISAs offer the presumed tax advantages of ILAs without imposing any restriction on how the savings may be spent. ISAs also have an annual limit of £5000, which is more than most people will be able to save in any case.

A person earning the proposed minimum wage and working the maximum weekly hours permitted by the Working Time Directive, and taking no holidays, will earn less than £9000 per annum. It is clear, therefore, that many of the people with the greatest learning needs, and who are least likely to be already benefiting from structured learning opportunities, will not be able to afford to save in order to learn. Others who are able to save are likely to prefer to do so via an ISA. If special advantages (for example, discounted fees) are granted to those paying from an ILA, then the financially astute consumer will nevertheless hold the resources in an ISA, only transferring them into an ILA at the last moment.

ILAs and third-party contributions; from employers and the State

The educationally disadvantaged are also more likely to be working for firms, or even a number of firms on a part-time or casual basis, who will not be willing to invest in ILAs. In any case, most commentators now agree that employers will not be willing to put a significant amount of money into accounts an indeterminate time before it is required. The most they will do is to promise to pay an agreed amount, for specified purposes, when the time comes. That is, they would offer a 'credit note', and a conditional one at that.

More recently, the policy debate has shifted its emphasis, with there being more talk of the value of ILAs in terms of:

- Making providers more responsive
- Increasing the motivation of learners by emphasising their role as customers, and by making transparent the investment being made in them by third parties.

5. University for Industry, *Pathfinder prospectus*, DfEE, 1998, paragraph 6·5.

The assumption usually made is that these objectives would be achieved if the State routed its funding to colleges and other providers via ILAs instead of via funding councils, thus making the situation rather more like a normal 'market', where the individual consumer has the purchasing power. However, it is certain that Government, like employers,

- Will not be willing to put significant sums of money into an account until just before (or even after) a purchase has been made
- Will impose conditions on the purposes for which its funding can be used.

The cost of administering ILAs

Since banks and other financial institutions cannot invest 'promises to pay' (whether these come from employers, Government or individuals) on the money markets in order to cover their costs, as they would for normal accounts, this raises the question of the administrative cost of routing funding via ILAs. These costs could be reduced if ILAs were integrated with other financial products, rather than being in competition with them, and/or if they were administered using existing funding or taxation systems. However, and whichever approach is adopted, funding which involves millions of individual transactions is bound to be more expensive than the kind of 'batch processing' of claims which a funding council administers.

The fact that it involves 'batch processing' does not mean that FEFC-type funding is not triggered by millions of individual choices. As such, it does encourage and reward college responsiveness, and can be tuned to do this to a greater or lesser degree, depending upon such things as the degree of institutional instability that is deemed acceptable. I leave it to others to show how far it is possible to promote responsiveness (and to do so more cheaply) in this way, but I believe that ILAs have little advantage in this respect.

The unique contribution of ILAs

With regard to the functions so far considered, the special advantage of ILAs may be the possibility that they would 'empower' learners and potential learners through putting them in the role of consumers.

Even here there is an important caveat. Insofar as this empowerment comes from having choice, limitations are immediately apparent. It has been argued above that both employers and Government will impose conditions on how the funds they supply may be spent. Individuals will, of course, be free to spend their *own* money as they wish, but are unlikely to have much to spare *before* they have enhanced their skills and

employability by embarking on a learning programme. It is in recognition of this that university students are offered a loan facility.

This indicates a second important role for ILAs. They have the potential to provide the equivalent of a common currency operating within a 'common market'. By analysing the funding of all education and training as if they were funded via ILAs we are enabled to identify anomalies: gaps, inequities, and the failure to transfer good practice from one area to another. Sometimes these relate to the entitlements due to the individual. Sometimes they reveal different assumptions about the conditions that it is reasonable to apply to different kinds of provider.

To obtain this benefit it is not necessary actually to use identical systems of funding for all provision. The approach would be to use ILAs as the base method, only allowing modifications to it when the special circumstances of a sector, an area of study or an individual showed that this was justified.

The applicability of ILAs to all post-16 provision

The principles which *The learning age* said underlie ILAs might be thought to apply as much to school sixth forms and universities as to training and further education. In this context, the fact that only College and TEC funding was explicitly mentioned in connection with ILAs is significant. One reason for this may be that – despite the statement in the Green Paper that 'Learning Accounts will be available to everyone'[6] – in fact the Government is mainly thinking in terms of ILAs for those in employment, and therefore learning 'part-time'.[7]

A less respectable reason for only mentioning further education and TECs may be that although there are moves to 'level the playing field' as between further education and school funding, Government is likely to be very reluctant to risk further disturbing school sixth forms by funding them via ILAs. (A recent discussion document goes so far as to promise that there will be 'no noticeable change in audit burdens on schools as a result of any new arrangements'.[8])

Similarly, it is evident that Government thinks that it has already been in enough hot water over changes in the funding of universities and university students, and does not wish to stoke up the fire further. Understandable though this might be from the political point of view, the fact is that university students already – in effect – have access to

6. *The learning age*. DfEE, 1998, paragraph 2.11.

7. The distinction between part-time and full-time study is becoming increasingly blurred. Many 'full-time' students have a part-time job to help pay their way, and many part-time students have as many taught hours per week as full-timers.

8. *School sixth form funding: a consultation paper*. DfEE, July 1999.

a learning account from which they can borrow. This cannot be ignored. It immediately raises the question as to whether the same facility can and should be extended to (say) those studying at technician level or on a part-time basis.

Using ILAs as a means of offering loans

Although the switch from grants to loans is seen by many university students as a backward step, for many other learners the right to a cheap loan might be seen as a considerable advance on their present situation. Also, while this disparity of treatment exists, there may be a tendency for 18 year olds to take the full-time university route in preference (for instance) to a work-based route which might provide some of them with a more amenable learning environment and more appropriate learning outcomes.

It is for these reasons that some agencies are investigating the possibility of providing *income contingent loans* to individuals. The Kent Learning and Business Link Company, supported by the Gatsby Foundation, is running a pilot project which will offer loans of between £500 and £3000 to up to 100 people, in part to encourage them to maintain their original ILAs. These loans are repayable, but without interest. MC Consultancy is setting up another project to explore the implications of income contingency, a feature which is considered essential to any broader-based scheme, and something which would distinguish this approach from earlier ones such as Career Development Loans. The availability of income contingent loans would have a number of potential advantages, which could include:

- Less onerous audit controls than required by a grant (for instance, university students are not required to provide evidence about how their student loan is spent)
- An increase of total resources available for learning without an increase in conventional taxation (the original loan capital would be diverted from existing grants in aid, and would be augmented when loans begin to be repaid, or more quickly if the loan could be 'sold' to commercial banks)
- The fact that the Government rather than the individual bears the risk if the rhetoric that 'learning pays' proves untrue.

This approach comes closer to empowering the learner as a consumer. However, those wishing to avail themselves of income contingency may have to be restricted to that learning which appears to provide

a reasonable chance of increasing their earning power, or which is part of a general entitlement, such as that which applies to all students taking a first degree.

Loans could also be used to meet learner costs for such things as child care or travel, which in many cases may be a more significant issue than course fees.

Provision which is more expensive than average

Whether ILAs contain cash or 'promises to pay', there is an obvious problem in that some provision – particularly that requiring technical plant and equipment – would take more out of the account, or require the account holder to borrow more in order to participate. On the other hand, it is not the case that engineers (say) are likely eventually to earn salaries sufficient to pay back significantly more than accountants (say) would be required to, even though engineering training would be more expensive. Without government intervention, this would skew choice away from some areas of learning of considerable economic importance. It therefore seems likely that some sort of 'notional currency' would be created, such that the 'cost' of provision was evened out.

There will also be individual learners who learn more slowly than average or who require more support in order to learn. Once again, either their accounts would have to be augmented by government funding, or providers would need to qualify for an additional subvention when catering for them.

ILAs and the metaphor of the market

At this point we should pause to note that accounts containing 'credit notes' rather than real cash, and which incorporate a 'token' currency, the use of which triggers an additional subsidy to providers of certain kinds of provision, do not fit easily into the conventional notion of a 'free market'.

Appendix 1 summarises in chart form the extent to which individuals, firms, and Government are likely to be willing to offer cash, promises to pay, or loans, in order to fund learning.

The future for ILAs

This analysis is not meant to be destructive of a potentially powerful concept. What it does show is:

- The need to be clear about which purposes ILAs best serve, and which could also be achieved by alternative means

- That ILAs are most likely to have value if applied, as a concept at least, to all post-compulsory learning, and not just to those sectors which are of lower status
- The importance of being realistic about their limitations as vehicles for generating additional contributions from individuals or employers
- Their potential value as a means of enabling learners of all kinds to borrow in order to invest in their own learning future
- The fact that borrowing to learn, if linked to income contingent repayments, is the most likely means of enabling learners to express and act on their own judgements as to their needs and preferences.

What is being purchased?

This is a question of real practical importance, since:

- We inherit different approaches in different sectors of education and training
- These approaches have changed over time
- Different approaches might be preferred by individuals deploying Individual Learning Accounts than are currently being used by Funding Councils.

Let us consider some examples:

- *A person wishing to learn to drive* purchases a number of hours of instruction, given on a one-to-one basis, and – perhaps – access to equipment in the form of a dual control car. The success rate of the driving school may influence the learner's choice of school, but does not form part of any contract.
- *A person wishing to get fitter* may join a health club, purchasing unlimited access to specified facilities for a period such as a year, an initial diagnostic session, and guaranteed supervision when using equipment. The availability of the equipment may not be guaranteed at all times, nor may the group sizes.
- *Some short management courses* specify as part of the contract the name and curriculum vitae of the course leader, the maximum group size and the facilities of the management centre. The aim of the course is specified, but not the content or processes.
- *Students learning word-processing via 'flexible learning'* are given access to an 'IT workshop' for a specified number of hours, at times to suit themselves, to an instructional programme on a CD-ROM, but to no teaching other than an initial introductory tutorial.

- *Some TECs used to fund training providers* against the achievement by their trainees of specified learning outcomes, usually measured by NVQs. The amount and means of instruction did not form part of the contract.[9]
- *FEFC funding for colleges* is triggered when individuals:
  - Receive advice and guidance at entry
  - Attend a learning programme
  - Reach their qualification aims.

The majority of FEFC funding comes from the 'on programme' element, which is audited termly. Therefore, a failure to retain students for the full year carries significant financial penalties. Institutional stability is supported by a guarantee of a minimum percentage of the previous year's income. It is of course possible to vary any of these proportions within the overall funding model, if that is desired.

- *University students* gain membership of the institution in return for their fees. They are entitled to use its facilities, and although they may expect teaching no guarantee is given of its nature or duration. This vagueness may not remain tenable as students become more personally responsible for paying fees, though the fact that they have to be members in order to enter for university examinations may be a limiting factor on any 'consumer revolt'. Funding is not linked to student achievement.
- *State school pupils* have a guarantee of:
  - A minimum number of taught hours per week
  - The fact that the national curriculum will be covered
  - Staff who are formally qualified as teachers as well as in their chosen discipline.

School funding is triggered by annual audits of student numbers. There is no financial penalty for poor achievement, though this may affect recruitment.

These examples show not only that what a provider is contracted to supply can vary, but also that – whatever it is – it is not 'learning' as such. Still less is it 'education'. Since both are intangibles, one or more proxies have to be used.

9. This was not an educationally sensible method since it produced a conflict of interest for instructors. They had to be involved in the assessment process, since NVQs require observation of performance, but were also paid according to the results of this assessment. It was *administratively* convenient, since it replaced a complex system of auditing daily attendance (when providers were paid by the taught hour) with a single and easily auditable funding 'trigger' – the achievement of a qualification. It would have been a more viable method of funding A-level provision, since this qualification is largely assessed externally. This has, however, for some reason, never been suggested.

Each proxy has its own set of risks and advantages.

- *Funding teaching* can protect valuable processes and professional expertise, but tends to encourage inefficiency.
- *Funding facilities* protects the infrastructure, but may not promote effectiveness.
- *Funding outcomes* promotes efficiency, but may not protect the infrastructure or preserve learning processes which people are entitled to experience.

The overall problem is that effective learning requires a number of elements to be in balance, and most systems of funding tend to emphasise one element at the expense of others. This is partly a matter of tradition, partly one of fashion, and sometimes determined by what is administratively convenient. For instance, funding 'taught hours' is never likely to be a popular method with funding councils because it is onerous to audit and encourages over-teaching. On the other hand, it is the most straightforward and popular means by which individual adults can 'contract' with a provider.

The effect of tradition is more subtle, but as an example one might characterise (or caricature) the situation up to now in post-compulsory education and training (PCET) as follows:

- In *higher education* the emphasis has been on *processes*, such as academic autonomy, peer review and such things as the Oxbridge tutorial system, in the belief that this will mean that the learning outcomes can be safely left to take care of themselves
- An attempt has been made to control and define *further education and training* through the specification of learning *outcomes*, plus a predominant external involvement in their assessment, in the belief that this will promote maximum flexibility and efficiency in provision.

Both approaches are now under pressure. Universities are finding that lack of clarity about which outcomes justify a good degree can cause them to have to play safe with regard to admission criteria and assessment methods if they are to maintain their reputations. Inspection of colleges (and even more of private training providers) has shown that control of outcomes does not ensure adequate learning programmes or teaching.

In general, I want to argue that it is dangerous to discuss funding or 'learning markets' without an appreciation of what goes to make up an effective learning programme, or more broadly, a 'quality education'. I therefore make no apology for a modicum of curriculum theory at this point.

For *effective learning*, an appropriate combination of the following elements is required.

- *Appropriate content*, which can in turn be broken down into:
  - Subject matter (facts and information)
  - Skills (mental and physical)
  - Concepts (such as 'forces' in physics or 'imagery' in literature)
  - The ability to select from and integrate the above to address a particular problem or issue.
- *Valid and reliable assessment*
  To be valid this assessment has to relate to the various aspects of content listed above. Too often, economic, political or administrative priorities require that a given method of assessment is taken as given, usually that which is most reliable whilst being cheap. This can be at the expense of validity, and can result in the content being determined by the assessment method.
- *Learning processes and experiences* (such as minimum flying hours for a pilot, or personal tutorials for Oxbridge students).
- *Facilities and learning materials*: access to a library, on-line materials, workshops, studio theatres, etc.
- A *learning environment*, which can include: the company of other learners; sporting and social facilities; a 'conducive atmosphere'.
- Expert and skilled *teachers and tutors*.

The role of inspection and of regulatory bodies

One way of achieving the balance outlined above is to combine a 'learning market' (which encourages quality and flexibility through competition) with suitable controls. Two instruments available to Government, and which have been considerably enhanced over recent years, are inspection of provision and regulation of qualifications.[10] Unfortunately, both have developed a reputation for defending the Government's interests as much as that of consumers.

For instance, whilst doing valuable work in exposing weak practice by teachers and institutions, inspectorates have fought shy of identifying problems in delivery which have been caused by funding (levels or methods), or by inadequate (usually mechanistic and over-engineered) government inspired curricula, testing regimes, or qualifications.

10. Another is the use of performance indicators and benchmarks. Adrian Perry addresses this area in his paper (chapter 5 in this publication): *Performance indicators: 'Measure for measure' or 'A comedy of errors'?*.

Regulatory bodies have clarified qualifications frameworks and improved consistency, but have – in the case of the former National Council for Vocational Qualifications (NCVQ) in particular – fallen to the temptation of going way beyond specifying the minimum criteria which qualifications should meet in order to satisfy the public interest. For instance, rather than saying that vocational qualifications should meet employers' requirements, and challenging awarding bodies to produce evidence that they do, NCVQ and its successor body the Qualifications and Curriculum Authority (QCA) have defined what these requirements are, or at least they have endorsed other bodies which have claimed to be able to do this. The result has been that local providers may be refused funding for schemes which they have negotiated with local employers: schemes which they know meet the needs of, for instance, small firms (not well represented on national 'standard-setting' bodies) or companies working more flexibly than the qualification structure anticipated.

At its worst, this has prevented providers from competing in terms of product design, and restricted them to competing in terms of service standards.

A useful analogy may be made with provision of housing. The development of the 'Parker Morris Standards' which specified such things as minimum ventilation requirements, damp-protection, and room heights did much to prevent a free market producing the slums of the future, whilst preserving consumer choice and the possibility of innovation. When (local and central) government went beyond this to develop and act on its own more extensive view of what was good for residents and what looked tidy and consistent, they produced the disaster of some post-war housing estates.

'Bite-sized chunks': adapting learning programmes to suit a 'market'

There are signs in the recent White Paper *Learning to succeed* that a division is being created between provision for 16–19 year olds, where priority is being given to coherence, and provision for older learners, where priority is being given to flexibility and accessibility.

White Papers and University for Industry (Ufi) documentation have both mentioned the importance of being able to offer to older learners what have been called 'bite-sized chunks', so that they can:

- Fit 'learning episodes' into the rest of their schedule
- Have encouraging feedback on their progress
- Pay for their learning in instalments.

Earlier in this paper, it was pointed out that if such 'chunks' matched the various, primary beneficiaries of learning, then this would ease the problem of who pays for what.

However, it is important to ask the question, 'chunks of what?'. For instance, the fact that NVQs are made up of units does not necessarily mean that they meet the need of allowing for incremental learning. This is because the units in question are sub-sets of occupational standards, based on *functions*, rather than being *learning modules*. In some cases, they do not even form free-standing parts of a qualification. This can be best illustrated with an example:

The NVQ in Vehicle Mechanical and Electronic Systems contains, amongst others, units relating to the following *functions*:

- Routinely servicing all aspects of the vehicle
- Identifying faults which affect system performance
- Rectifying faults in vehicle systems.

None of these units can be obtained until the functions concerned have been applied to all the vehicle systems, such as the engine, cooling and heating systems, fuel, ignition, brakes, bodywork, etc. In practice, learners usually spend time on each system in turn, learning in each case how to service them, diagnose faults, and rectify them. As a result, they do not acquire any units until the end of their programme, when they get them all simultaneously.

The conventional City and Guilds qualification in the same subject is also unitised, but is structured according to the *parts or systems* of a vehicle. This structure would allow for the fact that an employee working in a vehicle body shop might find that the employer would be willing to pay for their acquisition of the unit on servicing and repairing bodywork, whereas they might have pay themselves to acquire units relating to (say) ignition systems.

Appendix 2 shows these alternative approaches in chart form.

Another kind of problem arises when areas such as numeracy are embedded in the vocational units, rather than being freestanding. This means that there is no facility for recognising that an individual has greater numeracy than the job requires. Although individuals might be expected to pay for the additional learning themselves, the opportunity to acquire it could be an important factor in gaining promotion.[11]

11. The German 'Dual' system separates theory from practice and teaches conventional subjects in a way which we now find old-fashioned, but which makes it easier to allocate responsibility for funding.

However, the qualifications have to be structured so as to allow for such choices by individuals, which at present they are not.

Although adult learners are likely to prefer qualifications and learning programmes that are designed to allow for episodic learning, regulatory bodies tend to worry about the danger of incoherence and fragmentation. The technical answer to this is to provide an additional unit of assessment that is 'synoptic', in that it tests the ability to integrate and deploy the other units appropriately.

Some conclusions

- The metaphor of the 'market' has to be used with care in a situation where the participant, the funder and the beneficiary may not always coincide.
- Individual Learning Accounts could be a vehicle for the development of a larger and more straightforward market, particularly if their use for making loans was developed. ILAs may be of symbolic importance in *empowering learners*, but there are probably cheaper and easier ways of promoting *responsiveness in providers*.
- What is purchased is never learning itself, but some proxy for it. The 'proxies' that are used to trigger the funding provided by funding councils may not be the same as those which an individual would wish to 'contract' to purchase from a provider.
- Whichever proxies are used, they will tend to emphasise only one aspect of what goes to make up effective learning. Other aspects may need to be protected via the work of inspectorates and regulatory bodies. These organisations may have to re-orient their operations to take account of this, and to focus on individual learners as their clients, as opposed to Government.
- An active and flexible learning market will need to allow for learning to be acquired in a number of separate episodes. Our existing qualifications structure and occupational standards were not designed to make this easy, and will have to be fundamentally reviewed with this in mind. To be of good quality, they must be fit for this purpose.

Appendix 1

Components of and contributors to Individual Learning Accounts

	Individual or family	Employer	State
Cash	?[1]	No[2]	No[2]
Promises to pay	Yes	Yes[3]	Yes[3]
Loan facility[4]	No	No (?)	Yes

Notes

1. In most cases it would be most sensible for individuals to accumulate their savings in a general-purpose account which also gives tax advantages, such as an ISA. They could then transfer monies into an ILA when and if it was necessary in order to gain any additional benefits, such as discounted fees. On the other hand, family members contributing to other's accounts might wish to use an ILA from the start in order to ensure that the funds can only be used for the purpose they intend.
2. Small amounts of cash might be donated in order to create goodwill. However, neither Government nor companies could tolerate the cashflow problems and the loss of earnings from interest that would result from payment into individual accounts of significant sums of money – particularly without any definite knowledge of when the individual would make use of it.
3. Employers and Government, in particular, would find it difficult to manage a large number of outstanding promises to pay, with no control over when they might be used. It is therefore likely that they would wish to influence the phasing of their use, ensuring that not too many were activated simultaneously. This would be in addition to the influence they would wish to exert over the kind of learning for which their money was used. Therefore most promises to pay would be conditional in two senses.
4. There is considerable evidence that repayment of loans has to be income contingent before most people will contemplate them. Such loans will therefore be a matter for the State to provide, rather than individuals or employers.

Appendix 2

Units of (NVQ) assessment versus modules of (course) assessment

	Systems			
Functions	Cooling and heating	Electrical and electronic	Bodywork	Etc.
Routinely service				
Identify faults				
Rectify faults				
Etc.				

For the NVQ (level 2) in Vehicle Maintenance and Electronic Systems, each unit of assessment is based on one of a number of functions. A sample of these functions is shown above (on the vertical axis). In order to be awarded any unit, a candidate must demonstrate the function with regard to the full range of vehicle systems, a sample of which is also shown above (on the horizontal axis).

However, in practice an employee will work on a particular vehicle system, such as the braking system, and learn how to service it, identify faults and rectify them. Although a coherent area within the workplace, becoming competent in with regard to the braking system would not gain them a unit. Further, if they had no opportunity to work on some systems at all (such as bodywork, which might be sub-contracted to another firm) then they would gain no units at all.

This means that despite being unitised, NVQs do not necessarily provide the ability to accumulate the 'bite-sized chunks' which adults purchasing their learning a piece at a time might require.

This is not a fundamental problem, since as the above grid shows, the same area of work could be analysed differently so as to provide for this accumulation, without neglecting the occupational standards. It is just a matter of dividing the same 'occupational standards' in an alternative way.

What is crucial is that the design principles upon which qualifications and learning programmes are based should take account of the needs of individuals who may wish or need to undertake 'episodic' learning.

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5 Performance indicators: *Measure for measure* or *A comedy of errors*?

Adrian Perry
Principal, Lambeth College

Summary

The current system of providing public services by purchaser/provider split, and management by audit is weakened by the difficulties of identifying accurate performance indicators (PIs). The problems – data capture, social adjustment, fraud, tariff farming, cost and inflexibility – are greater than have previously been thought. The selection of proxies for PIs often leads to distortion of provider effort.

Government needs to make secure judgements about value for money and quality. It also needs evidence to base the selection of preferred suppliers in a managed supply chain relationship. To be effective in their role, PIs should be used with caution, and seen as supporting the management of supply chain relations rather than making final judgements of provider quality or cost. Judgements need to be supplemented by a strong research base, and by developing longer-term indicators. This will enable the development, through time, of a third way to manage a more effective post-16 sector – taking the best from the traditional public sector virtues and market disciplines whilst avoiding fetishistic contract compliance and audit.

Introduction

In recent years, there has been a major change in the way we run the public sector – a change that has drawn little attention from the public or press. Public services used to be delivered more or less directly by central or local government. This is no longer the case. What happens is this: firstly, an agency at arms length from Government is created.

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This agency is assigned the tasks that it is required to do and given the funds to get on with it. The agency then purchases the provision from institutions that have been made independent of local or national government. They have Chief Executives, develop mission statements, are required to make strategic plans and operating statements, undertake consumer surveys, and hit targets. Any initiatives or pilots beyond the base are launched via 'challenge funds' in which institutions and agencies are invited to bid for the opportunity to run a project for additional cash. Compliance with targets and conditions is checked by exhaustive audit processes: institutional success judged by performance indicators. Benchmarks and league tables are used to judge how efficiently one institution performs in relation to another.

With the obsession with franchise and accountability, control, cuts, sleaze, and staff contracts, we have failed to give enough importance to the coming of this new world to further education. Indeed, one of the besetting sins of the FE sector has been its failure to see itself as part of public sector trends, to think that its griefs are private and its problems specific. Colleges may have student volume targets and need to hit performance indicators for unit cost, retention and results, but the truth is that All God's Children Got Targets. Prisons have targets for multi-occupied cells, suicides and escapes. Job Centres have targets for job placement for unemployed people, magistrates courts and operating theatres need to get the right number of clients through and out the other side, and (as college 16-hour students know to their cost) Social Security clerks have targets for disqualifying benefit claimants. Police have clear-up rates, council housing departments have rental rates to hit. The population itself even has guidance as to how many alcohol units to consume – just about the only government target that harassed public service managers regularly manage to exceed.

The trend for setting targets has not escaped the attention of the media:

> *Apart from well publicised targets such as reductions in hospital waiting lists and the size of infant classes, precise performance targets have now been laid down for everything from the state of soldiers' and sailors' teeth to the number of specimens to be gathered by the Botanic Gardens at Kew.*
> *Sunday Times*, 13 February 2000

We now learn that the Treasury is setting targets for other departments as part of the Comprehensive Spending Review – and setting them at very detailed levels, looking for them to justify sums of money at the £10m level. Cash will be reclaimed from central government departments

who do not hit their own targets. So the Treasury sets targets for the DfEE which sets them to the FEFC which sets them for colleges who set them for their own schools and faculties who set them for course managers. Targets, like Jonathan Swift's fleas, go on *ad infinitum*.

The attraction of performance indicators

The logic is pretty simple: public services – training places, hospital operations, prison custody – are a commodity like any other. They should be purchased for the public in a way that delivers value for money. Value for money is best assessed if we specify and then measure what we expect to get for our money. The agency approach can also be argued to get round some other problems. One was what had become known as 'producer capture' in which public services got to be run for the convenience of their staff rather than their users. Another was the way that power had been in the hands of local government or amateur committees rather than expert managers.

The advantages of performance indicators to those charged with running the agency centred, but still massively complex and expensive public service are obvious. Firstly, performance indicators can be seen as part of an attempt to increase customer focus and improve quality (Ghobadian and Ashworth, 1994). How quickly are patients being seen? Which schools are getting the best results? Secondly, performance indicators can be used to help focus effort on matters of strategic importance. The attraction for politicians of a well-designed performance review system lies in its power to operationalise manifesto commitments. By extension, performance measurement is consistent with the Government's desire for greater accountability. It can apparently increase control over decentralised activities and (one step further again) help with the management of compulsory competitive tendering. To the extent that they inform administrative judgements about relative institutional performance, they can create a quasi-competitive market as funding agencies can select more effective and lower cost providers.

At its best, analysis of valid numbers can be used to tell a pragmatic government which policies appear able to deliver their goals. The danger is that it can be also used uncritically to justify cuts in public spending. It is always possible to find one hospital, one college or one police service that can achieve benchmark results at low cost. Calling for efficiency improvements through the better management of performance allowed the Government to cut public expenditure without necessarily advocating or, more significantly, being seen to advocate service level depletion, a process facilitated by the politically

irresistible "value for money" tag. It was difficult to oppose the concept of value for money without seeming to advocate or at least defend waste and inefficiency' (Ball and Monaghan, 1996).

And whilst we are wading in the muddy waters of cynicism, let's not forget one last advantage of agency/PI management to a politician – the diversion of blame. David Blunkett's promise to resign if the national learning targets are missed is not only courageous, it is rare. The logic nowadays is different; it goes like this – the Government has chosen the goals – safe railways, making absent parents pay, high school standards. They've given clear orders and handed over the cash with the task. Failure must therefore be due to an incompetent agency that has fallen down on the job. When a dangerous prisoner escapes, or a train crashes, ministers no longer resign – they call in the head of the Prisons Agency or Railtrack for a dressing down.

The problems with performance indicators

For whatever reason, and of whatever type, the march of the performance indicators was irresistible, despite evidence of substantial problems in their usefulness. It may be worth reviewing these problems systematically.

Social factors: We spotted early on that the targets and league tables were weak in allowing for social factors. Of course there was in the past some indefensible justification of poor provision on social grounds. David Blunkett once memorably told me, when he was leader of Sheffield Council and I was opening a new college in his ward: 'I don't want you coming back in two years and telling me the results are rubbish because everyone's disadvantaged.' We must make educational success available to all students, whatever their background: the energy the Government is giving to this task is heartening. But one of the most secure findings of educational research remains the link between social class and attainment. Judgements that make no allowance for context let the schools in the suburbs off easy, and leave the inner city school (and for that matter police force or rent office) demoralised. The first performance tables for New Deal job placement success placed 10 of the 15 'best performing' New Deal areas in rural Scotland, and 15 of the 20 'worst performing' in inner London. Lambeth was placed 119th out of 144 in its performance.

For as long as social inclusion is part of the public policy agenda, we must get this measure of achievement against the grain right. The problem is knowing how much of a discount is appropriate. Bradford will never match the primary school attainment levels of Kingston-upon-Thames, but what levels should be expected?

Converting raw scores into genuine measures of performance is an important task for the research community. In the meantime, benchmarks may be better than league tables. As soon as the idea of 'clustering' results in comparable areas was introduced, Lambeth's New Deal job placement score rose to 2nd out of 17.

Creaming: The damage from ignoring context could be worse than inappropriate judgements of quality, as managers alter their institutional policies to look good. Economists looking at planning systems note that 'creaming' is encouraged, where easier targets or clients are given preferences over more difficult (and often more deserving) cases. It would be sad if those working on the toughest tasks chose to ignore difficult to place trainees, or students with unsuccessful secondary backgrounds.[1] OECD (1988) has found creaming to be widespread in training schemes across the world. It is already happening in one crucial area outside education, where I predicted last year that publicly comparing hospital mortality rates will lead to a reluctance to treat – or even admit – seriously ill patients. The *Independent* duly reported on 7 September 1999 that 'The Chief Executive of a London teaching hospital has warned that surgeons could refuse to operate on high-risk patients if the emphasis on success rates for individual doctors increased'.

Measuring the wrong things: Those collecting performance indicators sometimes ask for numbers that don't actually measure what they want to know. Sometimes it is because we are measuring what is easy, not what matters. The most fatuous example is judging local government responsiveness by how quickly phones are answered: an unhelpful response after three rings scores better than solving the problem after four.[2] Reliance on fixed census dates make college retention measures very sensitive to the date a course starts. A more important example from the FE world is the very poor collection of destination data. This must be the paramount indicator of success for an educational institution – are people in jobs, earning more money, off drugs, staying out of jail, living independently? It would answer the Government's proper desire for outcomes, not outputs. Yet because

1. Note the increasing exclusion of difficult pupils from schools – which rose 500% between 1990/91 and 1995/96. They get in the way of how we currently measure raising standards and have to go.
2. Another 'measuring the wrong things' story: an angry MP demanded to know why her local education authority was at the bottom of the league for drawing down funds for nursery places, for eliminating outside toilets in primary schools, and in school maintenance grants. The reason is that (a) it has 120% coverage of nursery places and needs no more (b) it replaced outside toilets twenty years ago (c) the school buildings have been well maintained and require little remedial work. Far from being the sign of a bad LEA, the league position was a mark of honour.

it is expensive and difficult to collect, quality information (outside the sixth form college sector) is rarely available.[3]

Data quality: Even when the measure is right, apparent differences in institutional performance may just show variations in ability to collect data: Lambeth College's declared pass rate is twice that of some comparable inner London colleges, but I don't think we are twice as good. Alternatively, differences may arise from different methods of managing data. The number of rail complaints fell when railway companies made forms more difficult to obtain: the number of sexual crimes reported rose when police took a more sympathetic attitude to victims. The problem is worse when information is unrelated to incentives or judgements of performance: managers only put resource into result areas. The old FE Annual Monitoring Survey was held in contempt by people who had better things to do: and sending nonsense data to head office is not unknown in other sectors. The way that agencies now get round this is to tag resource to data: this gives providers an incentive to get data in, and allows audit to perform a dual function of monitoring performance alongside its traditional role of assuring probity. The problem is that it also gives institutions financial incentives to massage the figures.

Fiddling the books: This rarely comes to out-and-out fraud, though that certainly happens.[4] If there are financial penalties for student drop-out, there will be colleges who claim 100% retention. If you only get paid for a piece of adult training if the trainee gets a job or passes an NVQ, then those job outcomes or qualifications will appear. It is a lucky TEC that is not carrying a provision in its accounts against past fraud. I'll move to further education shortly, but here are a few interesting cases reported in the press:

- In the US, the reputation of some well regarded 'zero-tolerance' police chiefs has fallen as it has been found that their impressive figures were the result of distortions and misreporting as crimes were either unreported or downgraded. Car theft became vandalism, burglary was lost property – all to ensure the serious crime rate fell and the detection rate rose.[5]
- Privatised rail operators have extended the times for journeys to make it easier to avoid penalties on their punctuality targets.

3. Perhaps we should take a leaf out of the book of the American National Foundation for the Teaching of Entrepreneurship. They used a private eye to track down alumni of their inner-city owner-manager programmes!
4. Stories of Welsh primary schools who over-claimed pupils, or doctors with implausible patient lists both surfaced during the preparation of this paper.
5. *Independent on Sunday*, 19 October 1998.

- A city in China caused alarm for environmental health officials when it reported many more mentally handicapped children than expected. On investigation, it turned out that the local school system, realising that students with special needs could be left out of league tables, classified all who stood little chance of a pass as disabled. Some of the kids moved to other school districts and did very well.
- New York schools were discovered, according to the *Independent* (9 December 1999) to be routinely falsifying the tests that show pupil progress, in order to look good in government tables and attract extra funding.

'The more any social indicator is used for social decision making, the greater the corruption pressures upon it.' (Campbell, 1979). And it's not just social policy. Major errors in the US Army's official estimates of Vietcong numbers (which ignored guerrillas, supporters and anyone not in military uniform) were covered up to make it appear that the US was winning (Adams, 1995). Agency theory shows how monitoring is needed where there are 'hidden actions' or 'information asymmetries' which expose principals to 'moral hazards' or 'adverse selection' (Wallace 1980). But monitoring is rarely deep or clever enough. It didn't catch Robert Maxwell or Nick Leeson, BCCI or Halton College – or General Westmoreland.

Proxy padding: More common than straight dishonesty is tariff farming. Colleges short of units enter a whole cohort for additional qualifications: all the A-level language students do Institute of Linguists courses, all the art & design students do RSA CLAIT.[6] The franchise scam, where colleges bought growth rates of up to and above 100% by badging existing students from private trainers or profitable companies, is another aspect of this. Again, colleges have a huge financial disincentive to classify a student as having left, and so the FE league tables show implausibly high retention rates alongside implausibly low achievement rates.[7] This is all horribly well known to economists, who speak of Goodhart's Law which postulates 'that any observed statistical regularity will tend to collapse once pressure is placed upon it for control purposes' (Goodhart, 1975).

6. In the TEC world, the number of NVQs per trainee can be boosted by putting able apprentices in for a number of awards – NVQ1, NVQ2 and NVQ3 shortly after one another.
7. For example, reported retention for colleges in deprived areas on NVQ3 level courses is 75%, with pass rates at 57%. Give me a break. There is another reason for reported achievement being lower than actual – namely the difficulty of collecting results from many examination boards for a transient adult student population. But if the funding methodology favoured results ahead of retention...

The result is that the published performance indicators rarely provide sound evidence of underlying real performance[8] – unless we are talking about the performance of nimble minds in the management information industry. As a leading FE Principal once said: 'They want units, I'll give 'em units'. This is well known in the literature of central planning. Gray (1997) uses the example of the 'production fetishism' of the Soviet planning system to illustrate the 'gaming' effects of output monitoring. In Russia, for example, production targets encouraged over-production of poor quality goods. When targets for glass production were defined in tons, the factory had an incentive to produce undesirably thick glass, but when targets changed to square metres the glass was made too thin.

The problem is that in the absence of a real market, and unwilling to trust public servants, funding agencies have to look for proxies to measure: this is where much of the distortion comes in. They can't measure efficient health care, so they measure the length and duration of the waiting list. So hospitals concentrate on procedures that reduce waiting lists rather than medical need. They can't measure a good education, so they have to rate schools on whether they get pupils to five grade Cs at GCSE. Performance of the lower ability cohort then falls as schools concentrate resources only on those likely to get to that level. TECs are in the same dilemma. Having to hit their MPLs – 'minimum performance levels' – measured as so many NVQs or training places, they are under great temptation to provide the qualifications and courses that will tick the box: short, low level, cheap – rather than those the economy needs: long, high-level, costly.

Closer to home, the recent expansion in further education of first-aid and food hygiene courses is not because the economy needs them, but because the price FEFC used to pay for them offered such a good profit margin. The FEFC's line is now to say that the funding system was fine, but it was knocked off course by the unexpected entrepreneurialism of the FE sector. They should have known better. 'The central ideas of economic theory are very simple. They boil down to little more than the proposition that people will usually take advantage of opportunities...' (Krugman, 1999).

Outcomes not process: This would all be an amusing game were it not for the fact that resources are diverted into activities that yield good indicators and away from those that don't fit. A construction training centre shut last year in Camberwell because TECs are obliged by their funding regime to hold back 75% of the money until trainees

8. FEFC inspectors rarely believe the published PIs and always send in a statistical hit squad before inspection.

have a steady job: but in the low end of building trades, jobs are rarely 28 consecutive days,[9] so the trainers can't get paid. An American example, and maybe not totally fictional, is to be found in Michael Connolly's wonderful Harry Bosch books, which feature the contempt of our flawed but decent hero for the 'number squads' who exist to give the LA Police Department impressive arrest and clear-up rates for public consumption, irrespective of real work or serious criminals.

Short-term v. *long term*: There becomes an emphasis on outputs rather than process, doing the minimum to get by. 'Innovation involves risk and risk is not rewarded.' (Soviet quote in Gray, 1997). Projects with a quick payoff will tend to be preferred in a system which needs to prove the value of the current year's expenditure by achievements before year-end. Trainers financed by NVQ aim for fast turnaround whilst the broad skills we need to develop for the new employment world are likely to be a casualty of a number driven system. Sixth form college staff lamented the passing of the entitlement curriculum as the qualification driven funding and quality assessment system drove down teaching hours. Inner city colleges found that innovative courses aimed at rescuing the young disaffected might take people off benefit and build confidence – but they certainly have retention and achievement rates below approved benchmarks. A stark illustration of the pull between PIs *v.* innovation can be expressed in a single question – what will be the retention and achievement statistics of the Ufi/learndirect?

The tension between short-term indicators and long term improvement is particularly acute in the school sector. One of Lambeth College's partner schools is a tough, but improving, secondary in the north of the borough. It has, this year, for the first time attracted a full intake of local 11 year olds: but it will be five years before this is reflected in its GCSE league table performance – time enough for the local community to take fright at the poor PIs, send its children elsewhere, and turn the cycle downwards again.

Paying the cost: Another great disadvantage of the new wisdom is cost. The army of administrators and auditors needed by the new management system must be paid for before any efficiency gain can be claimed. This is a hidden cost, skimmed from education budgets. It should worry a government aiming to 'ensure the money reaches the learner rather than being tied up in administration' (DfEE Press Release, 29 October 1999). We have eight management information staff at Lambeth, collecting and checking information for the Funding Council:

9. The reason for this is that when a job outcome was defined (and paid) after seven days, numerous scams happened. Again, the difficulties of establishing a quasi-market come to the fore.

this is a comparatively modest set-up for a college our size.[10] One London TEC spent nearly £1m last year on extra accountancy staff to ensure it was compliant with Government Office requirements. Even then, it is likely that different auditors will have different interpretations, making comparisons based on their approved data flawed.[11] What is ironic, as we have noted earlier, is that compliance auditing of this sort is not good at uncovering fraud, which almost always comes to light in other ways.[12] Just as wags sometimes ask why there is only one Monopolies Commission, perhaps we should ask where is the value for money in audit.

It cannot be just the institutions who are paying the cost: the agencies are also running to stand still. TECs have existed for 10 years, yet last year – between April and October – there were 22 supplementary changes to their financial agreements with Government Offices. Incorporation happened in 1993. The FEFC has already published almost 400 Circulars and the pace does not slacken: the number of circulars issued has increased in each of the last four years and they now come more or less weekly. This is not a criticism of the Council or its staff: I believe that if we want to run a system via the target and audit culture it will indeed require this sort of detail.[13]

Distorting the managerial task: What institutional managers have to do in a world of audit and target and performance indicators and league tables is comply.[14] Local discretion – the style of the college plan,

10. David Eade, a respected Principal at Barnsley, estimates that his college – famously efficient and lean – spends £1m a year on collecting and providing management information for funding agencies.
11. Therefore more guidance is needed – and tirelessly supplied – for auditors. Colleges framing their self-assessment reports on their audit quality will be helped by the FEFC's list of no fewer than 119 points to check. A similar picture is to be found in equal opportunity, where a college filling out the FEDA good practice check will find itself printing off upwards of 50 pages.
12. In a tragic recent example, the Bristol baby heart operation scandal was unveiled by a whistleblower, not by analysis of PIs.
13. An interesting interchange from the PAC investigation into Halton College (26 April 1999): '*(Mr Twigg)* Does it concern you that since 1992 roughly 400 circulars plus have been sent to colleges, many of them relating to financial regulations, audits, financial matters and yet we are still seeing the problems we are looking at today in terms of Bilston, in terms of Halton and you may be aware that today we have heard on the news about Wirral College and major problems with overspending there. Is it not the case that the quantity of advice from the FEFC has not been matched by the quality? *(Mr Bichard)* We should always be concerned at the amount of advice which is going out both to colleges and to schools. We have, however, been going through the establishment of a new sector, we have been setting up new funding arrangements, we have had need to offer an enormous amount of guidance to colleges through the FEFC so I am not surprised at the amount which is going out. We should always be concerned about the quality and the clarity of that advice.'
14. The new managerial wisdom is strikingly like the ways we use to manage our own poor performers in-house – setting clear goals and targets and checking all the time. This gives a clue to how much the policy makers now trust the public servants below them.

the length of the New Deal Gateway – is limited. It is not that responding to the agency above you gets in the way of the job – it becomes the job. Staff meetings are given over to explaining to baffled teachers and technicians why we have to comply. Management information is shaped to give the agency what it wants, not managers what they want.[15] Each new Circular must be scrutinised for its effect on the college. In the longer term, a generation of managers comes through who see the whole job as responding to head office. Initiative and flair, local responsiveness and job satisfaction will ebb away until we get to the point of complaining, with Inspector Truscott in Orton's play *Loot*: 'how dare you involve me in a situation for which no memo has been issued!'

This has already happened in the TECs. Impressive senior industrialists have been recruited to their boards. But rather than discuss the training and skills needs of the region or industries they know about, they concentrate on the latest number of adult starts, cash reserves and performance levels. What the whole movement was set up for has been lost in a fog of targets and indicators. In a huge irony, the attempt to introduce the market ends in Stalinism.

How it works in post-16 education and training

The world of indicators and targets came to further education soon after incorporation. The 1992 Further and Higher Education Act established a Further Education Funding Council, and took nearly 500 colleges out of local government control. This was presented at the time as liberating colleges to be more entrepreneurial and flexible: at a famous reception, John Major asked the assembled Principals and Chairs: 'Isn't it great to be free?'.

We soon discovered we were about as free as a Marks and Spencer shirt supplier. Our liberation was quickly followed by the need to share Strategic Plans on a common format, to break that plan down into lists of actions by whom and by when, to make detailed returns to the Funding Council three times a year, and to hit ever more demanding targets of growth, unit cost and achievement. A new funding system was introduced based on breaking all our work down into units: a college's unit earnings depended on not only its student numbers, but its programme mix, its ability to raise fee income, its record in retention and achievement, how much learning or childcare support its students

15. A classic example of this is the absence of any workable electronic register system that counts student attendance. Colleges are actually worse at this than they were in the early '90s.

needed and more recently how many low income students it attracted.[16] League tables were established, with six major indicators[17] taking pride of place:

1. *Achieving the funding target*: Each year colleges are set targets for their activity in the coming year, based on student enrolments, additional learning support and so on. By seeing how close we get to our funding target, the FEFC judges the effectiveness of our planning and target setting.
2. *Student enrolment trends*: The FEFC looks also at how fast enrolments are growing (or falling). This shows them if colleges are providing programmes that meet the needs of students.
3. *Student continuation*: The proportion of enrolled students who are still attending in the summer term to show the appropriateness as well as effectiveness of learning programmes.
4. *Student achievements*: The percentage of completing students who attained their main learning goal is used to provide an indicator of student achievements.
5. *Attainment of NVQs*: The FEFC needed to know the numbers of young people achieving NVQ2 and NVQ3 and the number of adults achieving NVQ3 or higher in order to see how the college is contributing to meeting the national targets for education and training. It is difficult to see what this indicator adds to PI2 and PI4 apart from a marketing device for the NVQ sacred cow.
6. *Average level of funding (ALF)*: Measuring the college's cost-efficiency measured as the amount of cash per unit. This has been abandoned – ostensibly because unit cost is now determined centrally according to convergence tram-lines, but possibly because of the known flaws in its calculation.

These are the headline indicators, but others have also come into play. Assessments of quality routinely use the number of lessons graded satisfactory or better during inspection visits, or the number of colleges with management that is less than satisfactory. Financial assessments quote the proportion of colleges that achieve grade A status – meaning that the evidently have the resources to achieve their business plans.

Interestingly, other sectors of the public training worlds have different indicators. TECs have eight 'minimum performance levels' (MPLs) in total, measured at the mid-year and end-year points.

16. Following the report of the Kennedy Committee, premium payments are now made for students from deprived areas.
17. See FEFC Circular 94/31. Yes, it is that long ago.

The MPLs are:

- Youth starts
- Youth output points
- Modern Apprenticeships ethnic minority starts
- Basic Employability (BE) starts
- BE output points
- Adult jobs/self employment
- Adult ethnic minority outcomes
- IIP recognitions for organisations with 10 or more employees.

Although these figures are arranged in league tables by the DfEE, they are essentially thresholds – not absolute values. And not only is the style of indicators different: so is the use to which they are put. There is no pass or fail mark in the FEFC indicators, nor is there any apparent adverse consequence of performing poorly.[18] Indeed, a bad enough performance will bring a generous Standards Fund cheque flopping onto your college welcome mat. By contrast, a TEC that falls short of its mid-year or end-year minimum performance levels will find that the regional government office reduces its managerial freedom significantly – in particular, the ability to vire between programmes. The idea of using minimum performance levels as a licence to trade[19] as an educational supplier might be attractive to an agency keen to ensure low entry barriers but anxious about quality.

The existence of differing targets and performance levels in similar programmes places interesting choices to managers, who often have to deal with clients from different agencies doing the same course. Take the case of an FE college with European and FEFC funding. To avoid double-funding, FEFC students are discounted when put forward for ESF funding. As a result, managers are often faced with a choice at the end of the year as to which agency's targets to hit – FEFC or regional Government Office. It could also be argued that there are internal tensions between performance indicators – for example between high retention and high achievement (early leavers are likely to be students struggling with the course) or between standards and widening participation. This makes the FE manager's job – and maybe our analysis of their behaviour – like the idea of 'satisficing' found in the theory of the firm.

18. There are only two I can think of. One is the compulsion for a college in financial category C to agree a rescue plan with the FEFC; and there is a 'slap on the wrist' for colleges getting unsatisfactory inspection grades in that they may not expand areas of poor provision until improvement is confirmed by re-inspection.
19. A bit like allowing clubs to enter the Football League when their ground safety is up to scratch? Or requiring contractors to follow building regulations?

So what should we do?

None of this is to deny that we need good performance indicators. It does matter that a child is three times more likely to die in the same heart operation in a hospital in Bristol than in one in Birmingham. We still need the numbers to inform judgements on effectiveness, value for money, flexibility, and quality. No one wants to go back to a sluggish public sector of council estates and sink schools. But when creating a new post-16 education and training world, we must acknowledge the weaknesses of the measures we have used to judge the workings of the system we inherit. We need to blend the best of agency PI world with the best of the traditional public sector in (I hesitantly suggest) a third way. I suggest below that we need to take three decisions:

- Make sure the numbers are clean and useful for managers – defined in terms that make sense to those compiling them and those using them
- Supplement them with research and evaluation to a much greater degree than at the moment
- Use them to develop effective long-term purchaser-supplier relationships, rather than as headlines for political and public use. Performance indicator gaming is a consequence of poor communication and mistrust, that can be avoided by engendering a sense of common effort.

Clean up the numbers: Our first task is to make the numbers collected useful for judgements to be made. We are talking about the 3 Ds:

- The dimension – the aspect of performance that the manager or agency wants to know about (local government responsiveness, college student wastage)
- The definition – how the dimension is to be captured (how quickly the phone is answered, whether an enrolled student is still on course)
- The data – giving precise instructions to those collecting the information, which may involve proxies or cut-off dates, closeness to prescribed target levels or whatever (how many calls were or were not answered inside four rings; students in class after 1 May as a percentage of those enrolled on 1 November).

All three need to be right to get meaningful figures – but even so they would still leave the problems of context and gaming I mentioned earlier.

My recommendations would therefore include:

- Develop a suite of performance indicators that measure what is important – skills gaps; social inclusion; value added; perhaps even changes in local output – not what is easy. Recognise that some of these

require years to assess: for example, were access students successful in graduating? Did Business Start courses create enduring SMEs? Has that single parent stayed off benefit? Recognise too that judgements of college performance will need to be made using the suite, not by what Charles Handy described as the 'tyranny of the single number'.

- Ensure that targets and performance indicators have a social context, a carefully considered 'degree of difficulty' rating. Don't compare intensive care with general wards. Cluster providers in families for comparison. To be fair, this is now recognised by New Deal and more grudgingly by the FEFC.
- Develop some partnership goals and targets that have to be achieved by teams of institutions working together. This is already in place in learning partnership plans, and needs to be developed to full usefulness.
- Remove any perverse incentives. Scoring schools on their average grade rather than their number of students with five Cs will encourage raising achievement across the board. Funding franchised work with employers at the actual contract cost will support partnerships that make educational sense, whilst offering nothing to the 'fast buck merchants'.
- Keep stability between years – don't keep ducking and diving. The better understood a PI is, the easier providers will find it to give good figures, and the cuter auditors will be to spot malpractice. FEFC retention and achievement figures are now tip-toeing towards usefulness – but after four years of noise and nonsense. This implies running indicators as pilots for a number of years before publication – a promise that was broken in primary school tests. With 2000 or more providers, we cannot afford to jump around with different measures of quality or value for money from year to year.
- Measure what you want to manage not proxies – for example, satisfied callers not phone rings, students not funding units.[20]
- Make sure that figures are comparable across sectors – for example, that school and college data for retention and exam success are measured the same way (which they currently aren't).
- We must have some input measures as well as output measures – e.g. PCs per student, teaching hours, number of student counsellors per full-time student. The period of hygiene that moved institutions away from judging quality only in terms of inputs – carpets in the classrooms, how many teachers, how many library books – was useful, but we need to move on.

20. Between 1990 and 1993, college funding was based on FTE students. Enrolments boomed. From 1994 onwards, it was based on funding units. Unit totals boomed, but actual student growth slowed to a crawl.

- Ensure that performance indicators are compatible with internal target setting (unlike the FEFC's current practice in results, for example). Thus, managers will have an incentive to ensure the numbers are accurate for their own purposes: it will also minimise cost. Further, providers should be encouraged to develop their own performance indicators for the areas of concern to them, and share them with colleagues. (It strikes me that the source of the 'gaming' problem is that performance indicators were initially devised for internal management use – the corruption came when they became used by external bodies for control.)
- Even after all this, view the figures with very great circumspection. They could be used to inform the decision about collecting more information – for example, which colleges are ready for their next inspection. However, as Einstein is alleged to have said, 'not everything that counts can be counted, and not everything that can be counted counts'. Users of data need to know the limitations involved in collection and behaviour lower down the 'food chain'.

Evaluation and research: It is often said that further education has a poor research base. This is no longer true; but it is the case that further education makes little use of research findings for policy choices. Alongside a suite of reliable performance indicators we must build longer term evaluation – measuring the success of differing approaches in reducing drop-out, achieving progression to higher level courses, success in higher education and employment, finding out who is in work and what they earn. Long-term research is needed: an Access course may have good results and retention, but do its graduates make it through higher education? A training programme may be low cost, but are the clients still as likely to be unemployed three or five years later? A national programme needs to be coordinated that will link strong research with purposeful dissemination: FEDA seems well placed to take this role.

Rebuilding a public service

Performance indicators may be configured this way and that, or fiddled one way or another, and research findings may support or criticise current practice. The most important question to ask about them is: 'so what?'. The point, as Karl Marx once remarked, is not to interpret the world but to change it. What do we want PIs for? I would argue that the most profitable use would be to inform the long-term relationship between the Learning and Skills Councils, and the providers.

The voice of many evaluators lies behind the view that performance indicators should be used within a developmental rather than an accountability approach. Performance indicators should be used as 'guides, not answers', as 'tin-openers' rather than 'the dials on the dashboard of a car', for 'systematic thinking, rather than the rigorous allocation of blame', for 'learning rather than control!' Jackson, 1998

Building the partnership: But this implies that there is a long-term relationship. In my view, it is essential that we commit ourselves to developing a quality infrastructure through time. The UK skills problem is long term and deep seated. Our problems of technical education have been noted by Adam Smith and Alfred Marshall: the 1884 Royal Commission was established to look into the problem. The Professor of Social Economics at LSE wrote illuminatingly on the subject as it faced the Macmillan government (Williams, 1963). There are no quick fixes. Skills gaps and social exclusion will only be addressed if we regard the existence of strong institutions in vocational education as being as important as it is in the university sector, in hospitals or in the private schools. We must stop regarding colleges as just 'suppliers', in some way part of the problem rather than part of the solution.

Stability and continuity are essential for success. No-one will invest in expensive equipment or new buildings if they are likely to lose a contract in a year or so. Allocating high volume courses to the cheapest provider will not help, either. Specialist and high level provision feeds off general high volume courses: selling low level carpentry courses to the lowest bid imperils stone-masonry or stained glass. Expertise in meeting the needs of the disaffected, or ways to challenge the most able, are built over time on the basis of commitment to a community. The collaborative local system implied by Learning Partnerships cannot work without stability of institutions – and lifelong learning will be strengthened if the college is still there when people come back to it. This is not an easy way out: I have found in my own job that some stability is required to chase down quality and cost issues. Real improvement is a slow, slogging process. Dramatic changes in PIs/targets are either fraudulent or recovery from dreadfulness.

An FE principal arguing for stability and continuity could be seen as self-serving, but it is nevertheless important. Change in the public sector can be swifter than in markets. Colleges have been effective in responding to secular change – the collapse of apprenticeship, the decline of manufacturing and mining, the feminisation of the workforce, the coming of information technologies.

What has destabilised them have been new funding systems or changes in government priorities. Policy is bound to be capricious – whatever happened to Regional Advisory Councils, the Education Reform Act, ET, NAFE planning, the ILEA, polytechnics, the MSC, WRFE, grant-maintained schools, the demand-related element, TECs? There is even a good case for saying that strategic planning in the public sector, as currently configured, is an impossibility. By contrast, institutional continuity is greater in capitalist markets than in the public sector. The dominant firms, with some exceptions like Microsoft, have been around for decades, sometimes more. The moral in the public sector is to presume in favour of continuity.

Empower the providers: Then we must loosen up the control freak culture. There must be greater freedom to approach problems in new ways. This calls for a removal of in-year funding penalties (so colleges can 'fail forward' without immediate financial punishment). The power of local LSCs to deliver a part of the budget outside the funding tariff must be used to support imaginative initiatives that hit government goals – reaching out to the disaffected, establishing connections between training and work, and launching programmes that do not fit conventional qualification aims. This must be managed in a way different to the existing reliance on challenge bids, enabling those delivering the service to develop ideas of what works on the ground. I would argue for budgets based on agreed plans, not in-year achievement. This would add purpose and interest to the preparation of Strategic Plans. Working like that will also have some chance of restoring the morale of workers in the public sector, whose enthusiasm and commitment has held much together over the difficulties in recent years.

The argument for continuity and freedom is not a soft option, nor is it hostile to the idea of developing a ne*w* learning market. Capitalism has moved on. The relationship between supplier and provider in the advanced private sector is no longer one of 'open outcry', or 'stack it high and sell it cheap'. In today's knowledge economy, companies learn together. Supply chains are built carefully through time. Business partners are involved in new designs, in developing new products. This is not to say that buyers do not demand efficiency and quality from their suppliers – nor that they sometimes choose to drop a supplier altogether. Indeed, it can be argued that the growth of performance indicators and the audit culture is because of agencies' reluctance to let public institutions die. As Julian Gravatt, the percipient Registrar at Lewisham College has remarked, one cannot argue for an economy of strong public institutions whilst sheltering every weak one. Perhaps the Faustian bargain for the next stage of post-16 development is looser control for less security.

Just as the idea of a spot market in training runs counter to what is really happening in modern capitalism, the audit culture is dissonant not only with any idea of well-regulated professionalism, but also with modern management theory. Glance down Deming's famous 14 points – 'drive out fear', 'constancy of purpose', 'eliminate arbitrary numerical measures' – and see how many fit the compliance world.

Crude ideas of 'producer–provider separation', a false dichotomy between the interests of learners and those of colleges, and illusions that indicators exist which can give clean snapshots of performance will lead to more systems combining the worst aspects of markets – uncertainty and lack of accountability – with the inflexibility and bureaucracy of planning. They arise from an outdated model of how modern markets are now configured, and will leave policy makers and their servants, like unsuccessful generals, fighting the previous war.

Conclusion

When I started this line of enquiry, I thought it was an interesting backwater that might be good for a few gags. Over the past couple of months, I've come to another view – that this is actually a very important topic. Discussions with interested colleagues in and outside education have indicated that figures are much less reliable, and gaming much more common, than is realised by the makers of high policy.

But the topic goes deeper than that, and asks what is the difference between public and private endeavours? How do we judge how well we are reaching our public goals? How can we balance the need for a stable development of public institutions against complacency and poor quality. This is not a trivial matter, and there are no clear answers. It is my view that time will show that the bean-counters have led us up a cul-de-sac. The way forward must involve regenerating the support and enthusiasm of those delivering public services to the purpose of genuinely improved performance and efficiency. But we cannot avoid a difficult journey towards a re-invented public sector.

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6 The drivers for change in post-16 learning

Peter Robinson
Senior Economist, IPPR

What is the problem that the post-16 White Paper *Learning to succeed* is trying to address? This question has been puzzling observers since the White Paper's publication in June 1999. The puzzle arises because of the apparent contrast between the clear desire to create a learning market driven by the needs of the learner, while at the same time having that market overlaid by an apparently sophisticated planning apparatus.

Ostensibly the reforms appear to be a response to a number of criticisms of the post-16 learning system which have resonance with many observers. Firstly, there is confusion and more importantly inequity between funding routes. The objective of having a common funding formula is generally accepted by all interested parties, and a sign of significant progress is that the funding of school sixth forms will be addressed in the same framework (DfEE, 1999b). A second critique is based on the argument that providers have been insufficiently responsive to the needs of learners. The language of the 'learning market' is meant to signal that with funding following the learner, providers will be obliged to be more responsive. Although some observers are put off by the language of the market, and others argue that further education is already fairly responsive to learners, the objective of ensuring that providers provide what learners want is so obviously desirable that there can be few who would argue against this principle. In addition a number of specific examples of 'provider' failure in the FE sector have raised concerns.

If this was all there was to the White Paper (DfEE, 1999a), it is hard to see why it would be so controversial. It would also be hard to see

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why there was such an emphasis on planning, which would not really be necessary in the form envisaged in the White Paper if the objectives were simply to provide a system of equitable funding and to make providers more responsive.

However, there is another justification lurking behind the White Paper, which DfEE officials have confirmed is, in practice, overwhelmingly more important than those explored in the paragraphs above. The UK economy is held to be in a 'low skills equilibrium' whereby a 'skills gap' separates the UK workforce from those of comparable industrial countries, with this gap in turn the cause of inadequate economic performance – especially in relation to the 'productivity gap' which is also said to separate the UK from comparable countries. It is this concern which drives the 'command and control' elements evident in the White Paper.

What is being asserted here is not that the learning market suffers from '*market failures*' justifying carefully targeted interventions to overcome those failures: rather it is alleged that the education and training system suffers from '*systemic failures*' leading to an under-skilled UK workforce. Researchers tell the Government that we have a skills gap and employers' organisations constantly reinforce the message. Ergo further education must be failing to deliver. The supply side of the learning market must be given a good shake-up, which is the agenda for this White Paper. In addition demand for learning must be stimulated, which is the agenda primarily for future reforms. Essentially further education is being blamed for the perceived problems of the British economy.

So we have a 'learning market' to make providers more responsive to learners and to create equity between learning routes, and we have 'planning' to overcome the 'low skills equilibrium'. The apparent contradiction in the White Paper is thus easily explained after all.

There is another agenda also apparent in the debate, which is the answer to the perennial question of who will pay for additional investment in lifelong learning: the state, employers or individuals? This is the question which has to be asked if the demand for learning is to be increased, for this extra demand has to be paid for by someone. It is also the agenda behind the development of individual learning accounts.

ILAs were included in the 1997 election manifesto because the Labour Party had decided to drop some of the traditional instruments designed to increase employer investment in training – such as some form of levy system. However, they still needed some instrument to signal that they were serious about tackling the perceived problem of low levels of investment in learning by employers. In practice, as Stanton (1999) shows, employers are highly unlikely to put significant sums of money into ILAs. There is simply no incentive for them to do so.

The State will only put 'promises-to-pay' into ILAs, which will be honoured when individuals sign up for courses. This would be little different in practice from the system which we now have and will be developed further as the proposals in the White Paper are implemented. So we are left with ILAs as a vehicle for increased individual contributions, though why individuals should want to lock up resources in an ILA rather than the cash element of an ISA is unclear, as Stanton (1999) notes.

The Government is unclear which individuals ILAs are aimed at. Some clarity in this debate can be arrived at by applying the Government's model for the reform of pensions. Most high earners have access to existing occupational and personal private pensions. Stakeholder pensions are a lower cost form of personal private pension for those on between half and average earnings. For those on low incomes – less than half average earnings – the State will fund people's pensions. ILAs are presumably aimed at the same group stakeholder pensions are aimed at – those in the middle reaches of the labour market. But if individuals on low incomes are not expected to contribute to private funded pensions, then they can hardly be expected to pay for their learning either.

Behind all of this activity on ILAs is an assumption that the demand for learning is being held back by financial or capital market constraints. So although the assertion of a *'systemic failure'* lies behind government strategy, the flagship policy response actually seems to be related to one of the well-rehearsed *market failures*. Indeed, in the prospectus for the Learning and Skills Council (DfEE, 1999c) ILAs are mentioned only once as helping people to overcome '...the financial barriers to learning'. This document makes no mention of the role ILAs are supposed to play in helping to change the 'culture' around lifelong learning. If the DfEE does have a clever two-stage strategy for a 'revolution' in lifelong learning, the documentation around the setting up of the Council does not reveal much revolutionary intention.

It has yet to be demonstrated that ILAs can 'empower' holders, or that they will be the key to unlocking pent-up demand for access to courses while ensuring that holders bear a significant part of the cost themselves. Some learners face practical barriers to learning in terms of the need to care for dependants or to access affordable public transport, though the practical policy response to these problem could easily lie in an alternative set of policy instruments. ILAs also seem to be based on a view of the learner as an individual purchaser, denying the importance of the 'social capital', or indeed just the quality of experience which can be offered to an individual by a vibrant and stable institution able to rely on some continuity of funding.

An alternative to ILAs would be an extension of income contingent loans to learners in further education. Note, however, that an unstated but implicit objective for the introduction of such loans in higher education was to damp down demand for higher education below what it would otherwise have been. This is the inevitable consequence of getting individuals to bear more of the cost of learning, which is exactly equivalent to raising the price of learning. In further education, the introduction of loans for adults who have previously not had access to public funds would remove an inequity and might lead to an increase in the demand for learning, though by how much is uncertain. It is not clear what aims will be achieved by introducing either ILAs or income contingent loans for 16–19 year olds who already have a very generous free entitlement to learning (of which more below).

However, the most fundamental problem with this agenda is the failure to address what might be the most important constraint on the demand for lifelong learning, below the level of higher education. Whereas the returns to most HE qualifications are quite high so that individuals can bear some of the costs and still achieve good net material rewards over their lifetimes, the returns to FE qualifications seem more uncertain (and are certainly under-researched). People are prepared to pay for the lessons which will help them pass a driving test, because the returns to having a licence in terms of general mobility and in terms of improving employment chances are pretty unambiguous. They will only put their own money into courses leading to the attainment of FE qualifications if they perceive similarly clear returns. As Stanton (1999) points out, one advantage of income contingent loans over ILAs is that income-contingency leaves some of the risk with the State rather than the individual if the learning does not pay-off.

Getting entitlement right

A 16 year old who has just sat their GCSEs already has quite a generous entitlement. They can have up to four years' free full-time further education (or 2–3 years government-supported training), which in principle should allow someone even with rather low GCSE attainment at 16 the opportunity to progress through a Foundation (level 1) to an Intermediate (level 2) and even to an Advanced (level 3) qualification. If they reach level 3 they have in front of them up to four more years of still heavily subsidised higher education – time enough to get a first degree and a teaching qualification, for example. The only requirements on individuals in this system relate to the individual's capacity for progression. Thus, institutions will rightly be reluctant to allow people onto courses leading,

say, to level 3 or higher qualifications unless individuals have the background likely to ensure a reasonable chance of success. It is hard to see why we would want to make this entitlement more generous.

However, the National Skills Taskforce (1999) wants to switch away from an entitlement specified in terms of years to one specified in terms of qualification outcomes. They want the state to guarantee an entitlement to at least a level 3 qualification. This is justified in terms of an analysis of the 'skills gap' in the UK workforce, which in turn goes to the heart of the argument in the White Paper for the strong 'command and control' element in the new learning framework.

Table 1 (see page 83) is a reproduction from the second report of the National Skills Taskforce, showing how the employed workforce is divided up into different occupational categories and showing trends in the structure of the workforce over the period 1981–2006. Table 2 (see page 84) uses exactly the same data, but puts it in the form of the percentage of the employed workforce falling into the different occupational categories. It also separates out the two top managerial and professional occupations.

The Taskforce report, referring to the data in table 1, states that: 'The CBI estimate that at least 50% of the jobs in the economy already require level 3 or higher level skills – *a percentage which is continuing to rise fast*. At level 3 alone there are more than eight million jobs in our economy which can broadly be described as being at intermediate skill level' (National Skills Taskforce, 1999, page 23, emphasis added).

Now it is relatively easy to spot where the eight million figure comes from in table 1. In 1996, 8 456 000 jobs were in the intermediate level occupations. From table 2 (though not immediately from table 1) it is also possible to see where the 50% figure comes from. In 1996, 32·9% of the workforce were in the intermediate level occupations and a further 17·2% were in the higher managerial and professional occupations. Add these together and you get 50·1% – so far so good.

What is really interesting is to look at the *trends* in evidence in tables 1 and 2. Using exactly the same method as that employed by the Taskforce, in 1981, 48% of the workforce required level 3 or higher skills and in 2006 it is forecast that 51·5% of the workforce will require level 3 or higher skills. So over a quarter of a century changes in the structure of employment will require an extra two and a half percentage points of the workforce to acquire skills at level 3 or above, or *one percentage point each decade*. So the National Skills Taskforce is demonstrating that in practice the labour market demand for level 3 and level 4 skills is increasing at a snail's pace. This does not amount to the '...fast moving knowledge-based economy...' described by the DfEE

(1999b, page 11) as part of the justification for the 'command and control' model which it apparently seeks to establish for post-16 learning.

Tables 1 and 2 illustrate an important general theme: the evidence relied upon by the Taskforce, the DfEE and other 'planners' to justify command and control is consistently handled in a sloppy fashion and usually fails to show what it is meant to show.

Table 3 (see page 85) provides a useful counterweight to the picture portrayed in tables 1 and 2. It is based on the results of two sample surveys of individuals carried out in 1986 and in 1997, which asked what qualifications were required in order to get the job held currently (bearing in mind the distinction between qualifications and skills). The results of these surveys confirm that over time, the increased share of the managerial, professional and technical occupations has clearly resulted in an increase in the requirement for people to have higher (level 4) qualifications in order to gain access to these jobs. At the same time the proportion of the workforce required to have only level 3 qualifications has *fallen*, primarily reflecting the declining share of employment of the intermediate craft or skilled manual occupations. There has been an increase in the requirement for individuals to hold lower level 1 and especially level 2 qualifications (in part reflecting the growth in the personal service occupations and the penetration of qualifications within those occupations). There has been a significant fall in the proportion of jobs which can be accessed without any qualifications.

However, in 1997 people in the workforce believed that qualifications at level 3 and above were required by only 37% of jobs. If one accepts the argument that individuals have a better idea than the planners about what is really going on in the labour market, then the numbers in table 3 are sobering for fans of the National Learning Targets.

If an entitlement is to be specified in terms of a level of qualification, then a point around level 2 seems appropriate, and indeed is the entitlement offered in the New Deals. The report from the Social Exclusion Unit on disadvantaged 16–18 year olds rightly advocated that policy should focus on delivering a minimum entitlement to level 2 qualifications for as high a proportion of the age group as possible (SEU, 1999). For adults, an entitlement to learning leading to this level of outcome for those currently at risk of labour market exclusion should be publicly funded, which further calls into question the role of ILAs as a way of increasing individual investment in learning.

In 1997 someone with a level 2 qualification could have accessed 63% of the jobs in the economy, and at current rates of change this will not fall below 60% for another 20 years and not below 50% for another 90 years. The claim by the National Skills Taskforce that by

Table 1. Employment by occupation (in thousands)

Intermediate level occupations	Employment levels (000s) 1981	1996	2006
Corporate managers and administrators	418	665	730
Managers/proprietors in agric. & services	1475	1582	1730
Science & engineering assoc. professionals	450	634	749
Health associate professionals	695	783	837
Other associate professionals	597	1148	1561
Skilled construction trades	576	595	633
Skilled engineering trades	1445	924	795
Other skilled trades	2162	1672	1601
Buyers, brokers and sales reps.	461	462	502
Total intermediate occupations	*8279*	*8465*	*9138*
Other occupations			
Corporate managers and administrators	1253	1996	2192
Professional occupations	2019	2408	2667
Clerical and secretarial occupations	4042	4134	4172
Personal and protective service occupations	1753	2555	2955
Sales occupations	1261	1496	1657
Semi- and unskilled manual occupations	5487	4688	4415
Total other occupations	*15 815*	*17 277*	*18 058*
Total employment	**24 094**	**25 742**	**27 196**

Note: 25% of corporate managers can be classified at intermediate level

Source: National Skills Taskforce, 1999

the end of the next decade up to two-thirds of employment will be at level 3 is wrong and is a good illustration of the failure of the planners to understand what is really going on in the economy.

What about the productivity gap? Table 4 (see page 86) separates out the six OECD countries (seven if (West) Germany is included) where measured output per hour worked was *significantly* higher than in the UK in 1996, the eight countries where productivity was not significantly different, and the nine countries where productivity levels were significantly lower. What is most striking are the countries with productivity at similar

Table 2. Employment by occupation (by percentage)

Intermediate level occupations	Employment proportions (%) 1981	1996	2006
Corporate managers and administrators	1·7	2·6	2·7
Managers/proprietors in agric. & services	6·1	6·1	6·4
Science & engineering assoc. professionals	1·9	2·5	2·8
Health associate professionals	2·9	3·0	3·1
Other associate professionals	2·5	4·5	5·7
Skilled construction trades	2·4	2·3	2·3
Skilled engineering trades	6·0	3·6	2·9
Other skilled trades	9·0	6·5	5·9
Buyers, brokers and sales reps.	1·9	1·8	1·8
Total intermediate occupations	*34·4*	*32·9*	*33·6*
Professional/managerial occupations			
Corporate managers and administrators	5·2	7·8	8·1
Professional occupations	8·4	9·4	9·8
Total professional/managerial occupations	*13·6*	*17·2*	*17·9*
Other occupations			
Clerical and secretarial occupations	16·8	16·1	15·3
Personal and protective service occupations	7·3	9·9	10·9
Sales occupations	5·2	5·8	6·1
Semi- and unskilled manual occupations	22·8	18·2	16·2
Total other occupations	*52·1*	*50·0*	*48·5*
Total employment	**100·0**	**100·0**	**100·0**

Note: 25% of corporate managers can be classified at intermediate level

Source: National Skills Taskforce, 1999

Table 3. Qualifications required in Britain, 1986 and 1997

Qualifications level		% of all workers: Qualifications required[1] 1986	Qualifications required[1] 1997	Qualifications necessary[2] 1986	Qualifications necessary[2] 1997
Level 4	(Higher)	20·2	23·8	16·2	18·4
	of which degree	9·8	13·9	7·6	10·5
	of which sub-degree	10·5	10·0	8·7	8·0
Level 3		15·3	13·3	11·8	9·8
Level 2		18·5	21·4	12·0	15·4
Level 1		7·7	8·9	6·1	6·9
None		38·3	31·4	n/a	n/a

Notes: 1. Highest qualification now required to get current job
2. Required qualification is 'fairly necessary' or 'essential' to do the job

Source: Green *et al.*, 1998.

levels to the UK, including such notoriously 'inefficient' economies as Switzerland, Austria and Denmark. The UK comes out in the middle of this table with rather average levels of productivity. The UK also comes out in the middle of the rankings in terms of GDP per head (further details are in Robinson 1999a). If the UK is shown not to have particularly low productivity then this takes the 'heat' off the deficiencies of the education and training system as the explanation of that low productivity.

To highlight the complexities of the debate, we could take the fact that Switzerland, Austria and Denmark have similar levels of productivity to Britain, and use it as a useful control for understanding the UK's 'productivity gap'. The superior productivity performance of (West) Germany has often been ascribed in large part to its Dual System of apprenticeship-based training and the resulting high proportion of the workforce with intermediate vocational qualifications. However, Switzerland, Austria and Denmark also have similar Dual Systems and high proportions of the workforce with vocational qualifications. This apparently does not buy them higher productivity than in the UK.

The point to make here is that the belief amongst policy makers that economic performance and educational outcomes are closely related is not accepted by many economists – yet it is precisely this belief which justifies the 'command and control' elements in the White Paper.

Table 4. Relative levels of labour productivity and GDP per head, 1996

	GDP per hour worked	GDP per head		GDP per hour worked	GDP per head
Belgium	129	112	Sweden	93	99
Norway	125	132	Finland	93	96
France	123	108	Spain	86	79
Netherlands	119	105	Japan	85	118
Italy	119	102	New Zealand	69	89
United States	118	141	Greece	68	64
Germany	109	107	Portugal	57	66
Ireland	106	98	Mexico	39	40
Austria	101	111	Korea	37	70
United Kingdom	100	100	Turkey	36	32
Canada	96	111	Czech Rep.	32	47
Switzerland	95	126			
Australia	95	107	OECD	90	102
Denmark	94	114	EU	105	100

Notes: Margin of error at least + or – ten percentage points. (UK = 100)

Source: Robinson, 1999

So to understand why the White Paper looks as it does we have to understand the economic arguments which lie behind it. And to criticise the command and control elements has to involve criticising those economic arguments.

Getting the funding mechanism right

An issue which is strongly related to the 'command and control' elements in the White Paper is the justification for allowing the local Learning and Skills Councils a large element of discretionary funding to support local priorities and also the ability to vary locally the funding tariffs.

In its response to the White Paper, the CBI set out the case clearly: 'While most funding should follow individuals, there do need to be

enough funding controls at local level for local LSCs *to help match skills supply to labour market needs'* (CBI, 1999, page 12, emphasis added). In other words the main employer's organisation does not believe that the learning market will in fact work and that a planning mechanism at local level will do a better job in matching supply and demand in the labour market.

It is not clear that the Government agrees with the CBI. Although the '...local LSCs will be responsible for allocating the great bulk of funds ... this type of discretion will be limited in reality by the requirement that most funds should be allocated on a formula funding basis.' (DfEE, 1999b, page 16). It would thus appear that the power to vary tariffs locally will in practice be quite limited and determined centrally by the national Learning and Skills Council. It will only be used to address clearly evidenced local shortages of a particular type of provision and '...the national LSC will need to ensure that variations apply only to a small amount of the local LSC's total funding' (DfEE, 1999c, page 27).

Moreover, although 10–15% of total funding will be passed over to the local LSCs, there is a long list of provision which this funding will have to cover. Each local LSC will have to fund the following from this pot: information, advice and guidance for adults, marketing and promotion activity, adult and community learning, workforce development including Investors in People, help for excluded learners, support for local regeneration initiatives, and if anything is left after all this, they can 'pump prime' local small scale initiatives. The local LSCs may find that in practice they have very little leeway to fund their own initiatives. The Regional Development Agencies also in practice have little leeway to spend their funds. The prospect for the RDAs and the local LSCs is that employers may be misled by the rhetoric of powerful employer-led strategic bodies to think that they will have more authority to spend funds as they see fit than will in fact be the case. The problems this will cause are already in evidence with the RDAs.

However, if one thinks that the learning market is able to meet the needs of the labour market, because individuals can read labour market signals perfectly well and make rational choices about their learning needs, local bodies do not need large sums of discretionary cash. In a learning market the local LSCs will largely act as conduits for funding rather than planners. The statement in the prospectus for the LSC that 'The allocation of the great majority of the LSC's funds will depend on demand from individuals and businesses...' (DfEE, 1999c, page 26), suggests that the DfEE really does believe in the learning market and is shying away from the command and control model.

Getting the institutional framework right

Hall and Macleod (1999) set out a division of labour between the Learning and Skills Council, and the local LSCs, and the new Youth Support Service (YSS) and the Employment Service (ES), and their local offices. The LSC would be responsible for funding *learning* while the latter bodies would fund *learners*, by dealing with the barriers relating to transport, finance, child care and so on which might prevent people from accessing learning. Currently, this support for learners is also part of the very broad remit for the local LSCs. Hall and Macleod (1999) suggest that the YSS should perform these functions for the 16–19 age group and the ES for the post-19 age group. For the Employment Service this would be consistent with their developing role as the body responsible for the new single gateway which will gradually be extended to a broader section of the working age population.

In this model the ES would have responsibility for providing guidance for the post-19 age group. The White Paper leaves the local LSCs with responsibility for adult guidance, which would set up an unacceptable conflict of interest for bodies that also have responsibility for delivering local learning targets (Robinson, 1999b). However, there may also be concerns about the quality and impartiality of guidance provided by the ES. But if the local LSCs look overburdened with functions, taking adult guidance away from them would be most appropriate.

In Hall and Macleod's formulation there does not appear to be much of a role for the local Learning Partnerships (LLPs) and indeed it has been a longstanding puzzle as to what the division of labour is going to be between the local LSCs and the LLPs. The DfEE has suggested that the LLPs would work with the LSCs to provide information, advice and guidance and have a role in providing information on local learning needs. The LLPs would also '...provide the means for securing collaboration between local providers ... to tackle gaps and help avoid duplication...' (DfEE, 1999c, page 24). In Robinson (1999b) it was argued that these were some of the key functions that needed to be performed by a local 'planning body' if you believed that the learning market could work.

At the time of writing the relationship between the local LSCs and LLPs remained unclear in DfEE documents. What can be stated is that if the local LSCs are as administratively costly as the Regional Development Agencies, then the Government will not save on the administrative costs associated with the TECs, which was one of the explicit goals set out in the White Paper. The current proposals could easily be caricatured as replacing one set of expensive local bureaucracies with another set.

Getting workforce development right

The DfEE and the CBI appear to be keen on two key features in the proposed framework. Firsly, the national LSC and local LSCs will have clear responsibility for delivering the National Learning Targets. Secondly, the local LSCs would be responsible for workforce development (that is training for employees), where employers have a legitimate concern to see a structure in place which is responsive to their needs.

Other than as devices to illustrate what might be desirable aspirations for the learning system to achieve, planning in the form of National Targets has absolutely no role to play in a modern dynamic market economy. They are a throwback to the 1960s when the white heat of the technological revolution (for which read the knowledge-based revolution) appeared to require national manpower planning for its achievement.

However, the Government's plans to have a public body in charge of £6 billion of taxpayers' money also responsible for delivering the National Targets raises the spectre of a return to manpower planning. If the job of the Chief Executive of the LSC is on the line if he/she fails to hit the targets, how could the Council not resist the temptation to skew the funding mechanism to serve that end? Funding would no longer follow the learner – it would follow the need to hit the targets. This sets up an unacceptable conflict of interest for the LSC.

In its response to the White Paper, the CBI sets out a very clear description of the key areas where some public intervention is desirable in the area of workforce development, while acknowledging that it is primarily the responsibility of employers themselves:

- *Tackling structural problems of firms which do not see the benefits of training or are not equipped to plan their own development programmes...*
- *Spreading good practice in training and development with start up funds for pump-priming companies' use of initiatives...*
- *Benchmarking of current practice...*
- *Providing information to companies about what is available...*

CBI, 1999

This is strikingly sensible because it is strikingly modest, but it fits very ill with the CBI's apparent support for 'command and control'. Moreover, local LSCs are not the appropriate mechanism for dealing with these problems. What is needed are local employer-led bodies with a remit to offer a series of services, including access to pump-priming funds,

to help firms develop their businesses and out of this to think about the development of their workforces, and then to think about the role of training in workforce development. So the body that offers business services and the body which helps firms with their training should be one and the same body. In practice, this logic is reflected in the overly complex model whereby the responsibilities of the local LSCs for workforce development will anyway be franchised to the local arm of the Small Business Service. The fact that we have the local LSCs, and separately the Small Business Service's local franchises, reflects the failure of the DfEE to let the DTI take over an area of policy which should be part of the DTI's remit. If the LSCs did not have responsibility for workforce development this would further lighten their load.

A final thought

The contrast between the 'learning market' model and the planning or 'command and control' model will continue to be the focus for tension as the White Paper is implemented and the national Learning and Skills Council and the local LSCs come into being. It could be the case that the rhetoric of national, regional and local planning disguises a set of arrangements which in reality will look like a learning market, where provision is driven by funding streams that follow the informed choices of learners. This is the benign scenario. The negative scenario is that the perceived need to plan provision to overcome the skills gap will re-create a system of manpower planning that has long since been discredited. The key issue is whether the LSC will act as purchaser on behalf of learners, or will also try to act as an independent purchaser trying to serve the ill-defined needs of the economy.

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109

7 What do employers want? Do they know? And should we listen?

Andy Westwood
Employment Policy Institute

Introduction

There is one clear fact about any interpretation of the recent White Paper *Learning to succeed* – that the Government wants the post-16 education system to listen to employers.

> *Employers should have a substantial stake in shaping post-16 education and training … the proposals for a Learning and Skills Council at national and local level will give employers unprecedented influence over the education system and promote a better match between demand and supply for skills.*

The alarm bells have gone off throughout colleges, universities and examining boards. They are still ringing at funding bodies and at TECs up and down the country. Many probably feel that we have listened to employers for far too long already – can the DfEE possibly not know what it is like to sit in a College Corporation Meeting and listen to some local builder drone on about how young people are not as clever as they once were? Even board members from the local TECs have failed to convince corporations of their knowledge or interest in many of the issues confronting providers of post-16 education.

The purpose of this paper is to look at what employers really know, what they should expect and whether education should really listen at all. The paper also draws conclusions about how this influence should impact on both the supply and demand sides of educational policy delivery.

Paper prepared for the third IPPR–FEDA seminar on the new learning market, 14 December 1999.

What do employers know?

Employers are expecting people to be job ready; 'dressed' for work – they want people who can read, people who are numerate, they want people who turn up on time, they want people who can work well in a team, people who can communicate well – and they're expecting this to be achieved before they get to the employer ... and it's a very difficult thing to do and it will cost more money than we are currently spending on them and it will have to be more intense.
Tom Shebbeare, Chief Executive, Prince's Trust

Employers talk a different language to educationalists. Their needs are quantifiably different. They talk of skill needs and deficiencies, competences and employability. The supply and demand sides to the education debate are more entrenched than in any other sector. Very few commentators advocate, or attempt to combine supply side reform with demand led delivery of skills. The fundamental proposition posed in this paper is how much the different sectors actually talk a similar language and how 'skills' via a limited planning model can actually be seen as a common vocational currency across the sectors of education and employment.

The difference of opinion is nothing new. The debate over the education system and its ability and responsibility to provide relevant work skills for the workplace is a subject of longstanding controversy. There has been a general perception over time that employers, commentators and politicians have not been happy with the skill levels of the UK labour market's potential and actual workforce.

There is a huge range and variety of documented opinion, research findings and formal educational reforms that have all aimed to address and draw appropriate curriculum conclusions on the issue more recently named 'employability'. Historically, the connection between 'training' and work was first highlighted in 1563 in the Statute of Artificiers, an Elizabethan law dictating that all 'artisans' (skilled craftsmen) would be required to serve an apprenticeship of not less than seven years. Employers have expressed their concerns regarding both the standard and appropriateness of the education and skills of their workers fairly consistently since the 17th century. Whilst these concerns are focused on both 'hard' and 'soft' skills, over the past twenty years there appears to have been a greater focus on needs for 'soft skills'. The long lasting hard versus soft skills debate has been refocused heavily by the remarkable growth in service sector employment and in emerging key skills reform and imminent legislation.

102

> *Forty percent of employers recently stated that there was a significant gap between the skills of their recruits and their current business needs, with personal and communication skills among the most deficient. There is growing recognition that effective employees need strong personal qualities as well as good qualifications ... Since 1950 the UK has lost 5 million jobs in the producing industries and gained some 8 million in services. We now earn more revenue from Indian restaurants than from coal, steel and shipbuilding combined.*
> Tom Bentley. *Learning beyond the classroom.* Demos, 1998

To listen to employers effectively you have to understand their language. You also have to have at least half an eye on a changing UK labour market and the shift towards the differing skill requirements of a new service and knowledge based economy. The Skills Taskforce acknowledges the changing environment but also looks closely at existing demands and outlines the concerns of employers as follows:

> *Employers repeatedly express concerns about the employability and key skills of young people entering the labour market for the first time, including graduates. Employers also report a lack of practical skills relating to the application of technical knowledge in the working environment. This is consistent with the relative weakness of apprenticeship and other formal vocational training for young people in the UK compared to other European countries.*

Research from employers' groups backs this commentary. The Institute of Directors (IOD), the Confederation of British Industry (CBI), the Institute of Personnel and Development (IPD) and the Federation of Small Businesses (FSB) have all commissioned and published research on the subject in the past few years. All conclude that there is a skills gap and that young people leaving education do not possess all the skills that define 'job readiness' as suggested by Tom Shebbeare at the beginning of this paper. The most useful description of skill shortages comes in the annual Skills Needs in Britain survey heavily utilised by the CBI. Earlier this year, it provided an analysis of perceived skill shortages in the UK labour market (see table 1 overleaf):

Table 1. Percentage of employers reporting skills lacking in 16–24 year olds

Technical and practical skills	25%
General communication skills	20%
Customer handling skills	19%
Team working skills	17%
Computer literacy	16%
Problem solving skills	15%
Management skills	15%
Managing own development	14%
Numeracy skills	8%
Literacy skills	7%

Source: *Skills needs in Britain & Northern Ireland 1998*

Vocational and job specific skills come out on top of employers' needs, but generic skills form the remaining requirements. This finding is more or less echoed in a recent survey of its members by the IOD. In this work IT comes out on top (29%), followed by vocational skills (20%) and technical skills (a further 7%). Generic skills are also represented by the following categories; basic/generic skills (14%), communication skills (9%) and management skills (19%). The interesting elements come with the implied responsibility for types of skill:

> *To a crucial extent, it is the owner's or the manager's responsibility to deal with skill shortages, skill gaps and other recruitment difficulties. In the first instance, the owner or manager is much more likely to have the requisite knowledge to determine what training – if any – his employees need, than anyone else … Additionally, because the performance of the enterprise has direct financial consequences for the owner or manager, he has a powerful incentive to address any deficiencies in skills that the employees in his firm may have.*
> Richard Wilson. *The skills and training agenda.* IOD, 1999

In this report, Richard Wilson of the IOD goes on to state that a government's role should therefore be limited and that they could never truly be able to predict future skills needs of employers. The prime responsibility of the government is 'specific and limited' and should concentrate on 'addressing the deficiencies of the British education system'.

All school leavers should have a basic mastery of the 3 Rs and the essential generic skills that are needed in the workplace. Individuals who lack these basic skills reduce their chances of employment and, generally speaking, are harder for employers to train than individuals who possess these skills.

The CBI, in their recent publication *Making employability work* are even more explicit in their definitions of employability and in their perception of the relevant responsibilities of education and employers:

The foundation education system needs to develop employability more effectively. The Skills needs in Britain *survey reveals that a number of persistent gaps remain in the skills of young people – though specific technical and practical skills are a matter for employers rather than education to tackle.*

Table 2. Qualities and competences which make up employability

• Values and attitudes compatible with the work – including a desire to learn, to apply that learning, to improve and to take advantage of change
• Basic skills (literacy and numeracy)
• Key skills sufficient for the needs of the work
• Other generic skills that are becoming increasingly 'key' – such as modern language and customer service skills
• Up-to-date and relevant knowledge and understanding
• Up-to-date, job-specific skills
• The ability to manage one's own career

Source: Based on *In search of employability*. CBI, 1998

Employers' organisations such as the CBI and the IOD are therefore clear about the priorities for delivery of skills – both for education and for individual employers. They are also more sophisticated than some commentators might have us believe. Their highly developed understanding of generic and key skills, and also of delineated responsibility, suggests that the 'language barriers' between education and employment may, in fact, be exaggerated. Their response is also good news for the Treasury – specific vocational training will clearly cost the country less if we follow this model. Perhaps a significant shot in the arm for the strategy behind setting up ILAs.

But what about actual employers? Are they as sophisticated as their representative bodies? During a research project earlier this year, much of which has been reproduced in this paper, we spoke to many

employers, large and small, and from many diverse sectors about their own specific attitudes to skill needs, training and to the perceived qualities of GCSE, GNVQ and A/AS level. Many bear out the views of the CBI and the IOD.

Michael O'Dwyer, General Manager of the London Marriott Hotel at County Hall sees the presence of basic skills and basic motivation as most desirable. He looks specifically for young people, regardless of qualification, with the ability to work in a team, to solve problems and to respect customers and colleagues. Provided a prospective employee can bring these qualities, O'Dwyer proudly states that he and the organisation will provide absolutely everything else.

This is a knowledge shared with Compass UK – the largest provider of hospitality and associated catering in Europe. They too work in one of the largest and fastest growing sectors in the UK economy, and also share a similarly sophisticated view of potential recruits. Unsurprisingly, their priorities for skills are also similar. Flexibility, team-working skills, communication, loyalty, customer handling skills and motivation all feature very highly. Skill development, and especially training, is invested in those employees who can show most loyalty, motivation and flexibility (crucial to a multi-sited, unsociable hours operation).

Tesco, now the largest private sector employer in the UK, completed our look at skills in the service sector. Once more, they concentrate on a mix of good basic skills and respect and motivation as a recipe for potential recruits:

> *What we look for above everything else and sadly this is often in the shortest supply, is someone who can respect our customers.*
> Chris Phillips, Manager, Tesco Evesham

This is augmented by the already familiar qualities of teamwork, problem solving and attention to detail. Indeed, Tesco are so sophisticated in their requirements for skills that they have developed their own competence based training programme as a replacement for NVQ. They have also discontinued their graduate recruitment programme as it has failed to provide the type of individual who could be expected to manage stores within two to three years. Instead they have introduced their 'Options Scheme'. This encourages store managers to concentrate the development training outlined above on those individuals who have demonstrated most of the organisation's key skill requirements. These are the people who will go on to manage sections, shifts and stores.

The initial identification and the monitored development of these individuals, who have come to Tesco as General Assistants

(more publicly known as 'shelf stackers'), is achieved through the application of seventeen critical success factors. Significantly, only one of these seventeen relates to technical knowledge.

Table 3. Tesco critical success factors

1. Setting objectives	10. Motivation
2. Planning and organising	11. Development of people
3. Controlling quality and standards	12. Teamwork
4. Analysis	13. Adaptability
5. Decision making	14. Drive
6. Innovation	15. Customer focus
7. Conceptual thinking	16. Commercial awareness
8. Ensuring understanding	17. Applied technical and professional skills
9. Influencing	

Source: Tesco Options Programme, 1999

The intriguing fact about the service sector's apparent sophistication is that historically it has always been seen as a 'low skill' environment. Retail, hospitality and catering were all sectors criticised in the hugely influential (and still unpopular!) *The failure of education and training in Britain* (Finegold and Soskice, 1988). Indeed, these sectors were deemed to be the principal exponents of the 'low skill equilibrium' that similarly underpinned sectors such as manufacturing, agriculture, engineering and construction. There is evidence to suggest that this work is not unskilled – particularly in terms of the desirable generic and key skills listed by respective employers. However, even if one considered these skills to be 'low' – it can still be stated that evidence of generic and key skills in potential employees has become more vital to initial entry into the labour market, even into perceived 'low skill' jobs.

Ken Mayhew, of Pembroke College Oxford explained the increasing requirement of generic skills in the service sector as a rise in demand for what he described as 'aesthetic labour' (*Employment Policy Institute parliamentary briefing*, May 1999).

Other employers from more traditional sectors also look more closely for generic and key skills than in the past. Technical and vocational skills are more highly regarded than in the service sector, but employers are less fixated by them and more inclined to provide this type of training.

Table 4. Ford UK – top skills required

• Wanting to learn	• Problem solving (seen as hallmark of German education system)
• The ability to question learning	
• Analytical/diagnostic skills	• Presentation skills
• Teamworking skills (essential)	• Mental arithmetic

Source: Andy Renton, Human Resources Manager, Ford UK. Employment Policy Institute, 1999

Ford recruit a vast number of employees of different age and skill levels and for careers including engineering, manufacturing, sales, administration, human resources, information technology, training and management. They are thus familiar with a wide range of qualifications and skills and have tremendous experience and a good reputation for their own training provision. As a company they are also heavily linked to educational providers including schools, colleges and universities for a range of reasons including informal associations, governing body representation, careers service work, placement opportunities and joint programme delivery.

At their Dagenham and Brentwood operations, Derek Todd is Manager of the Apprentice Education and Training programme. He runs an Advanced GNVQ in Engineering for the Ford apprentice intake, in association with Havering and Barking Colleges. One might expect this programme to be so heavily business focused that it would be intentionally biased toward Ford technical processes and not on more general elements and options within the GNVQ units. This is not the case: the Ford GNVQ is actually more general than the GNVQs taught to the regular intake of engineering students at these London colleges. The programme incorporates additional English and Maths and team-working skills, beyond those found in the key skills components of the programme. This is at the expense of the technical knowledge so often found in similar education based programmes:

> *We teach basic engineering in the first year (of four) and then we never use it again ... We don't want people whose skills become out of date in two years, we need the skills in the programme to have a much longer shelf life.* Derek Todd, Ford UK

Andy Renton, Manager of Human Resources and Personnel Services, is clear that the education system needs to provide a clear framework with generic skills as opposed to technical knowledge. He believes that the 'connectivity' between industry and education is sadly lacking,

especially at senior levels, and he cites regular top level strategy collaboration with academics in the United States, at the Ford Headquarters in Detroit and at similar meetings at their operations in Stuttgart in Germany. This, he believes, is the cornerstone for real educational standards at university level and not through massive expansion and 'dumbing down' of our degree system. He does, however, reserve this argument exclusively for higher education as his opinion of schools and college standards is far more generous:

> *I get annoyed with all this carping criticism about educational standards. Kids work harder today, they work longer and they are better prepared. No-one in the past has been any better prepared for employment or university.* Andy Renton, Ford UK

Ford are clearly very positive about the business use for these transferable skills, and at the expense of specific vocational provision. This does not necessarily suggest that they are completely happy with existing post-16 provision. Indeed, they bemoan the fact that they feel it necessary to have to add more such skills to these programmes in their own training schemes. However, their support for the type and style of learning, when placed in a clear framework, is unequivocal.

How much should we listen to employers?

Many commentators, from both academia and the media suggest that we should pay little attention to the demands of employers. Indeed many advocate complete rejection of their views:

> *It may be that education is desirable in its own right – indeed it almost certainly is, provided that what is delivered is education rather than merely a training checklist demanded by business.* Larry Elliott and Dan Atkinson. *The age of insecurity*

> *Employers should be induced to put their money where their mouth is and invest significantly – following the German example – in vocational education, at the end of which they should guarantee apprenticeships. Only by investing significantly in vocational education as a distinct route to achievement, by resourcing it well and by providing jobs at the end of the process will we crack the destructive assumption that a university degree is the only qualification that matters.* Melanie Phillips. *All must have prizes*

> *In short, the British problem is a lack of investment year after year in both human and physical capital, especially in the public sector. The pattern of disappointment cannot be blamed on any particular sub-sector. Although at a disaggregated level productivity in engineering and metals is especially poor, the same pattern is echoed across industry, services, agriculture, construction and the public sector.*
> Diane Coyle. The *Independent*, 1999

We also need to be aware of the apparent differences in observed skill priorities and actual recruitment practice.

> *This gap between what employers say, and what they do, has caused significant problems for training policy. We need to move to a situation where Pavlovian responses to official enquiries cease, and where all the actors are willing and able to provide policymakers with an honest view of current and likely future attitudes and intentions. Until this happens, vocational education and training policy is being constructed on sand. Towards a national skills agenda.* First report of the National Skills Taskforce, DfEE, 1999

How much is the distrust likely to affect the harnessing of employers' views in the shaping of educational priorities and specifically in the workings of national and local Learning and Skills Councils? Larry Elliott and Dan Atkinson are perhaps the most realistic and their words of caution are important. However, our research suggests that employers and employers' organisations deserve to be listened to more closely than we perhaps may have advocated a few years ago. Our evidence compiled in this research suggests that employers are more considered, understanding and knowledgeable of qualifications and skill sets than ever before. Indeed it may even be fair to say that employers' knowledge of education and its 'language' far outstrips education's knowledge of the workplace.

Contrary to the opinions of both Melanie Phillips and Diane Coyle, there is also evidence to suggest that employers are indeed putting their money where their mouths are – at least in comparison to other developed countries. This is particularly interesting given our typically poor performance in comparison to these countries in other matters pertaining to education and training (see table 5 opposite):

Table 5. Education/training funded by employers or self and family 1994–95

	Self/family	Employer
UK	20%	74%
US	32%	70%
Poland	32%	65%
New Zealand	38%	64%
Ireland	37%	44%
Canada	37%	52%
Belgium	37%	51%
Netherlands	39%	54%
Australia	42%	44%
Switzerland	52%	43%

Source: OECD, 1998

This adds credence to the IOD's assertion that employers are prepared to pay for training of their workforces and also to contribute to the forthcoming Individual Learning Accounts. Ironically, the major issue with ILAs may prove to be individuals' reluctance to contribute funding and not the employer.

Ewart Keep and Ken Mayhew of the Universities of Warwick and Oxford have long provided analyses of employers and education and training in the UK. They argue that demand for skills via the education system has risen sharply in the past 10-year period – but that this has not resulted in an equivalent growth of higher skill needs from employers in the UK labour market. They believe that graduates and also school and college leavers are now doing less skilled jobs than their qualification level would have suggested in the past. This is the caveat that must be applied to the apparent skill needs of employers. Theirs is a very compelling case that although employers have become increasingly more discerning in their attitudes to education and to delivered skill sets, this sophistication has not been matched by an equivalent increase in the number of higher skilled jobs available in the labour market.

Keep and Mayhew's view is that the entry criteria for the UK labour market is increasing and that even lower or unskilled jobs are now demanding at least basic or generic skills prior to entry. This view is in part backed up by the recent DfEE-sponsored inquiry into basic skills chaired by Sir Claus Moser of the Basic Skills Agency. This report makes startling reading – suggesting that one in five adults within

the UK workforce are functionally illiterate and that as high as one in four are innumerate. The report uses powerful examples:

> *Some 7 million adults in England – one in five adults – if given the alphabetical index to the Yellow Pages, cannot locate the page reference for plumbers. This is an example of functional illiteracy. It means that 1 in 5 adults have less literacy than is expected of an 11 year old child … 1 in 3 adults in this country cannot calculate the area of a room that is 21 × 14 feet, even with the aid of a calculator; 1 in 4 adults cannot calculate the change they should get out of £2 when they buy a loaf of bread for 68p and two tins of beans for 45p each. Improving literacy and numeracy: a fresh start.* Report of the working group chaired by Sir Claus Moser, DfEE

The Moser Report sees these levels of innumeracy and illiteracy as significant barriers not only to the UK's overall productivity, but more seriously to the individual's ability to enter the labour market at all.

There is then, evidence to suggest a growing awareness and knowledge of skills needs amongst employers that must be welcomed and used – especially in the framework for full time education and specifically in the delivery and content of qualifications such as GCSE, GNVQ and A-/AS-level. However, whilst not being quite as critical as some of the commentators quoted in this section, we must also take note of the utilisation of these skills.

We must not allow increased educational achievement, and particularly in the desired fields of generic and key skills, to be wasted on perennially low skilled jobs. Key skills should therefore also be combined with some mechanism that ensures a desire to continue personal development and learning. This would see new entrants to the labour market able to learn new skills and to progress upwards in respective careers and/or organisations. We at the Employment Policy Institute do not underestimate the value of entry level jobs (one of the best forms of preparation for work is work itself after all), especially when combined with further development and training opportunities.

Employers must at least attempt to match the increased supply of skills with an increased supply of 'skilled' opportunities. This, from our research, can be seen to be happening amongst large employers in the traditionally low skilled service sector, with the rise in interest in 'aesthetic labour'. The warnings of Finegold, Soskice, Keep and Mayhew are not applicable here. The developments put in place by employers such as Tesco, Marriott and Compass should be applauded and held up as an example to the rest of the labour market. More importantly, at least as far as this report goes, they should also

be held up as examples to the education sector of what skills should play more of a part in our traditional qualifications.

There is a recipe of skills at work in employers such as Tesco and the Marriott, supplemented in particular by the work of the CBI, that can provide us with some very significant pointers to the make up of qualifications in the 14–19 curriculum. They also provide a very clear and creditable set of suggestions about where the responsibility and funding for specific skills should lie. This is good news for the purse string holders in the education sector as well as for the policy makers.

Employers and graduates

The demand for 'job ready' skills is beginning to alter as students' experience of studying at school, college or university increasingly involves an increasing amount of actual work. This applies to formal elements of particular courses, to the increasing incidence of sponsored study and through informal part-time work taken on as a consequence of increased financial costs.

The CVCP have recently found that the majority of UK universities want to see mandatory key skills as a part of all advanced level study. This is partly out of a simple recognition of the importance and transferability of learning and partly because they don't want to have to provide it – at least not at level 3 – themselves. In tandem with this recognition of the importance of key skills at level 3 is the growing body of thought that suggests that key skills are likely to be developed in higher education at levels 4 and 5.

An important consequence of demand for key skills at level 3, prior to university entrance, is the implicit realisation that it comes at the expense of other learning. It is significant to see whether universities are prepared to sacrifice substantial learning – most likely to be knowledge specific – in their desire for improved key skills. When put to the CVCP, they considered that responses would vary from subject to subject – same syllabus progression (e.g. medieval history A-level to degree in medieval history) – don't want to see the subject knowledge sacrificed. It is different with less clear progression (e.g. a history, economics and French A-level student going on to study accountancy, marketing or management science). According to the CVCP, the real weight of thought would support key skills over subject-specific knowledge as the real growth degrees bear little resemblance to advanced level study in terms of subject progression. Even in total, same subject progression will only account for a very small percentage of undergraduate students.

The issue of broader study at advanced level is, as the CVCP suggest, going to be a difficult nettle for higher education to grasp. Ultimately, they are the final judges of success at reform of advanced level study through their own admissions policy. Their views are therefore crucial. Professor Richard Layard of the Centre for Economic Performance at the London School of Economics strongly supports a broader learning programme at advanced level, but also recognises the difficulties of tackling the issue head on:

> *Nowhere else in the world can you give up maths at 16 and then go on to university ... Nor is there any other country where someone doing science at university could have studied no non-science subject since 16 ... Ever since the 1950s there have been campaigns for broader A-levels. In 1988 the Higginson Report recommended a fundamental reform involving much more breadth. Though broadly supported by the universities, it was rejected by the Government. More recently, the Dearing report (1996) recommended that a broad set of A-levels should be given a special title – but it is unlikely that universities will encourage many people to go for this. The best approach is gradual reform. I would suggest the following as a first step; universities should insist that A-level students have at least an AS-level in maths and at least one AS-level in an arts or social science.*
> Richard Layard, CEP, London School of Economics

Both Richard Layard's views and those of the CVCP have been supported in the research carried out as a part of this project with several leading UK universities. During August and September, we spoke to a range of different people including academic and admissions staff from Cambridge University, Manchester University and the University of Hertfordshire. This sample was selected on the basis of the CVCP's annual Employability study of UK graduates – with the selected institutions all achieving top grades in the research.

Transferable skills as a broad heading are evident in all the skill sets required by universities and also significantly in the virtues claimed on behalf of graduates. In some cases these are key skills as prescribed by the DfEE for advanced level study (level 3) and in others they are these skills in all but name or realisation.

A recent small-scale study carried out by the University of Nottingham for the DfEE looked at the levels of key skill competence in students entering higher education. It concentrated on five key skills (problem solving was not included) and found that whilst the numbers of students with level 3 competence in specific skills varied from 41%

in improving own learning to 66% in communication, only 6% were competent across all five key skills. The research went on to state that there appeared to be a strong link between good performance at A-level (still the dominant entry qualification) and levels of key skill competence.

The research proceeded to recommend that key skills play a greater part in the admissions process and that they are formally included in UCAS procedures. This would then reveal much more about potential undergraduates and their suitability to various university courses. It may even be enough for the Oxford and Cambridge Dons who feel they need extra help in selection processes.

A conference in 1997 organised by the Council for Industry and Higher Education, The *Times education supplement* and the Institute of Education further defined the importance of transferable skills in the workforce and in graduates. The event was based on the findings of a report entitled *Employers' survey: graduates work: organisation change and students' attributes*. Commissioned by CVCP, CIHE, CBI, and HEQC it concentrated on a cross-section of companies' attitudes to graduate skill requirements.

The report's main recommendations were as follows:

- Personal/interactive skills should be developed as an integral part of the HE programme, and must be assessed or they are 'not taken seriously'. Employers are more experienced than most academics at assessing skills and therefore might be used by course managers to do this.
- Organisational change within companies has implications for graduates who need, as a result, a wide range of communication skills. Working in project teams, for example, means working with a wide range of personnel outside the traditional chain of responsibility.
- 'Employability' skills are not the same as 'vocational' and can be embedded in any course.
- Employers want adaptive, adaptable and transformative people to help them maintain, develop and ultimately transform their organisations in response to, and preferably in anticipation of, change.
- As the academic world changes, employers will need to develop more sophisticated criteria than A-level scores or university reputations. Higher education and employers might want to cooperate in developing a more appropriate set of indicators of graduates' suitability for the workplace.

At the conference launching the report, a series of high profile representatives from business and industry including British Telecom, Esso and KPMG gave their views on critical skills in their respective workplaces:

- Key attributes needed in graduates: creativity; enthusiasm; ability to work in teams and cross cultural divides; a critical attitude to established processes; use of IT at an appropriate level; readiness to regard learning as a continuous process
- The basic 3 Rs at unconscious competence level
- Autonomous learners demonstrating intellectual or learning skills plus creativity
- Key skills of communication, IT, numeracy, working in teams, modern language competence, and to include scientific awareness integrated in to the curriculum at all levels
- Motivation
- A broad range of skills developed through a wide range of activities including team-work, leadership, communication, innovation, capacity for sustaining an international focus
- Lifelong learning capacity
- Integrity.

The expectations of graduates generally, then, seem to be on similar qualities and skills to those expected of school and college leavers. It would seem broadly that the changing economy is demanding more generic skills and less specific knowledge from its graduates. This in itself will increase demand for reform at advanced level and an expansion of generic skills at levels 4 and 5 as well as at 3. The increased expansion of numbers in higher education will serve to exacerbate this still further as will the increasing proportions of demand for more job-related undergraduate study opportunities.

This shift in emphasis is increasingly perceptible to the extent that even Richard Layard's suggested compromises over reform now seem conservative. Some particular courses and, no doubt, some particular universities will be slow to recognise this shift and will not respond as quickly as other organisations in the sector. The sector, as a whole, is such that some elements may never really have to change in this way. However, it is clear that the mainstream is gearing itself to a vastly altered set of priorities in the future. This, as with the change in the perceptions of employers, is further justification for increased change within the make-up of the post-16 framework.

Conclusions – implications for a learning market

It seems that employers and their organisations know quite a lot about the types of skills they need and the types of training that they feel able to identify, source and pay for. I have to admit that they know a lot

more than I would have expected. On the face of things then, a significant stake in the shaping of post-16 education is deserved. This is particularly true of some of the organisations and individuals that we have discussed in this report. The new learning market will benefit from their presence at the policy table. The dilemma in their expressed needs are that they are increasingly based on transferable skills and personal attributes. These are not skills that easily make up specific qualifications or even ones that sit easily in a qualifications framework. However, the nature of employers' needs and their application to the whole UK workforce provides us with significant issues in the supply and demand reaction to the post-*Learning to succeed* landscape. The lessons for policy makers in the post-White Paper world are based on how best to incorporate these skill needs into the learning market's overlaid demands for specific types and level of qualifications.

These demands for transferable skills are not necessarily those readily associated with a new knowledge economy – the opinions described in this paper come from traditional manufacturers and established service industries, and not just from new types of organisation. Rather this estimation of a skills gap is now as much about initial access to the labour market, admittedly in a more service and team orientated working environment, as to prerequisites for progress within specific careers. For me the need for planning comes here. Nationally we need to see a wholescale transformation of the delivery of qualifications from levels 1 to 5, but especially at levels 2 and 3. The types and range of qualifcations can be left to the learning market but the delivery of certain skills within them need to be managed and planned.

There is no doubting the fact that as Peter Robinson pointed out in an earlier paper from this series, individuals are becoming very adept at reading labour market signals about the value of particular types of qualification and skills. However, individuals still seem to have significant problems in reading into their own abilities and/or suitability to particular forms of education and indeed work. This is particularly relevant to individuals studying at lower levels of the education framework.

The gold standard of A-level is a great example for the learning market to deal with. Designed in 1951 for the top 3% of the cohort, the qualifications are now taken by over 30% of the population in their final year of full-time study. Far more than 30% expect to take them during preparation for GCSE and yet each year a huge number of disappointed 16 year olds, with GCSEs below the magical 4/5 grades A–C, attempt to plot a course back to their chosen holy grail and on to university. Few make it back at the second or even the third attempt.

Participation in post-compulsory education begins to drop away at 17 and dramatically for those with poor achievement at GCSE. Many get lost in GCSE retakes and many more in what Michael Young of the Institute of Education, refers to as the 'alphabet soup' of vocational education.

No-one could argue with the labour market signals that these qualifications send out, especially to secondary school pupils in years 10 and 11. It never ceases to amaze me just how many 15 and 16 year olds expect to pass their GCSEs, take A-levels and go on to university. The number is certainly far higher than those who manage to do so. Equally it never ceases to amaze me how many 17 and 18 year olds expect to pass their GCSE retakes, take A-levels and go on to university. No-one is at fault for misreading the signals – not students, teachers, careers staff or parents – but the simple fact is that A-levels are of no use whatsoever for vast numbers of pupils who wish to study them. The learning market is not going to solve this problem as it is certainly not going to undermine the attraction of these qualifications in the labour market. There is an implicit responsibility for a well planned safety net for those that are suckered into this pathway. This may manifest itself in a guidance function or on the provision of key skills alongside such study – a kind of 'New Deal' for those who haven't failed yet but who almost definitely will.

It is likely that business representation and supply side planning from LSCs involving them, will beef up the vocational alternatives. If the views of the CBI are widely held and exercised then we will see some clout behind GNVQ and NVQ. In their *Qualified to compete* policy document, they reiterate their support for competences in the workplace and for competence based educational programmes.

> *The original purpose of GNVQs was to provide a preparation for both continuing education and for employment. But they are at present serving the needs of education far better than those of employment. This skewing of the purpose of GNVQs will be exacerbated still further if their grading – or their name – is altered to reflect more closely that of academic qualifications such as A-levels.*
> CBI, 1998

A change in post-16 education is important and an element of planning and market activity will move the framework closer to the needs of the UK labour market. By getting employers formally accountable for this process we may see the educational policy equivalent of Sinn Fein sitting in the Northern Ireland Assembly. It is hoped that their presence is as much as a hostage to progress as for diagnosis itself. However, change

requires us to listen. This change is dictated by many things – globalisation, technological revolution, the advent of the 'knowledge economy' – but also simply by the continued failure of so many people in our education system. It is clear that whatever the 'new' economy, is it is increasingly inaccessible to those people without an appropriate education.

So how should we respond to this clarion call and specifically, how should we approach the fundamentally crucial 2nd and 3rd levels of the qualifications framework?

> *How can the old and the new educational systems evolve together to mutual benefit? The starting point must be a redefinition of the purpose of education. We must move away from a view of education as a rite of passage involving the acquisition of enough knowledge and qualifications to acquire an adult station in life. The point of education should not be to inculcate a body of knowledge, but to develop capabilities: the basic ones of literacy and numeracy as well as the capability to act responsibly towards others, to take initiative and to work creatively and collaboratively. The most important capability, and one which traditional education is worst at creating, is the ability and yearning to carry on learning.*
> Charles Leadbetter. *Living on thin air*

Well, he would say that wouldn't he? – but Leadbetter is probably as close to a workable definition of level 2 and 3 provision as anyone. The real test is whether a wider agenda of providing generic and key skills will be the connection to the desired policy of lifelong learning.

There are also the irresistible calls for widening participation and social inclusion through our education system. Clearly, most responsibility here will lie with levels 1, 2 and 3. Sanderson in *Education and economic decline in Britain* puts the case most convincingly as a prerequisite for economic growth and well being as opposed to a reach towards Utopian equality:

> *For the future, in our concern for academic excellence we must take much more care not to neglect the non-academic teenager too easily rejected by the system. Nor should we be too beglamoured by the belief that all useless knowledge is mind trainingly 'liberal'. Above all we need to see the education of the people less as a kind of humane charity and social service and recognise it more as fundamental and essential for the promotion of economic growth.*
> Michael Sanderson

As a final conclusion I would say that employers are saying some things worthy of attention. They are worth repeating in a the new world of the Learning and Skills Council and they are worth acting on in terms of appropriately planned provision across all elements of post-16 education, but especially at levels 2 and 3.

This paper is based on a report carried out by the Employment Policy Institute in conjunction with the Edexcel Foundation entitled Education at work. *A full version of the report will be available in April 2000.*

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Major reforms to the post-16 sector were set out in the White Paper *Learning to succeed*. Following its publication, FEDA and IPPR held a series of joint seminars to consider how the reformed sector would operate. *The new learning market* forms a collection of papers presented at these seminars, addressing issues such as funding, responsiveness to learners' requirements, and bridging the 'skills gap' in the British economy.

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123